

# Norwood Annual Financial Report for FY18

## Highlights

- Norwood continued to achieve robust client progress in 2018 across its targeted key segments: Virtual Business Mobile Services (VBMS), Compliance, CRM, Cyber Security and Loyalty, with pipeline and contract negotiation activity advancing robustly in all segments.
- Restructured and revitalised Norwood senior leadership team with the addition of two new executives. Noel Northcott and Aidan Montague, to drive Norwood's revenue, commercialisation and marketing activities.
- Ongoing deepening of channel partner relationships with Oracle and Veritas.
- Launch of **World Voicemail** post financial year end.
- Development and launch of **new Sentiment Analysis capabilities** for **World Phone** and **Corona**.
- Partnership with Fon to expand Norwood's **World Wi-Fi** service footprint using Fon's global footprint.
- Norwood delivers revolutionary **World Wi-Fi** App on the Android platform.
- Increased product development activities, including;
  - **World Phone 3.5**
  - **World Message 2.5**
  - **World Wi-Fi 2.0**
- Co-marketing partnership with Visa to promote **World Apps** on Visa marketing platforms.
- **World Phone** offer to RAC Travel members and customers launched.
- Launch of **World Secure**, the Company's first cyber-security service.
- \$3.06m raised in total throughout the year, demonstrating market confidence in Norwood's current strategy.

'Sharing Economy' and 'Communications as a Service' pioneer Norwood Systems Limited (Norwood or the Company) (ASX: NOR) is pleased to provide its financial report for the year ended 30 June 2018.

<ENDS>

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## Company

**Paul Ostergaard**

CEO and Founder

**Office:** +61 8 9200 3500

**Web:** [www.norwoodsystems.com](http://www.norwoodsystems.com)

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## Investor Relations

**Shane Murphy**

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## Background

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

Norwood Systems has built up a significant pipeline of prospects, across its three core targeted segments of Enterprise B2B, Loyalty and Telco. Increasingly Norwood is working with major partners to build profitable client relationships across these three targeted segments.

Norwood has now established significant partnerships with Oracle, Veritas, Global Relay and AddCom for Norwood's Enterprise (B2B) offerings and has developed strong partnerships with Affinion International and Collinson Group for Norwood's Loyalty offerings. Most recently, post-financial year, Norwood has expanded the relationship with Oracle to target the Telco segment for its World Voicemail platform. The Company has additional significant partnerships-in-progress, for the Telco Voicemail market, which are expected to be finalised and announced in the first half of the new financial year.

Currently, customers in over 5000 cities and 200 countries/territories 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. These two Apps form the core of Norwood's revolutionary Virtualised Business Mobile Services (VBMS) platform, which in turn forms the basis for Norwood's Enterprise Compliance and Enterprise CRM services.

Norwood's World Wi-Fi™ App gives users seamless access to millions of Wi-Fi Access points around the world. The Company is seeing strong ongoing interest in this App from Loyalty partners across the world.

World Secure™ provides unique cyber-defence for individuals and corporations' employees when they leave their established security perimeter, protecting them automatically when people use potentially unsafe Wi-Fi networks.

Norwood's most recent platform, World Voicemail™, re-imagines how Telco operators can transform their basic, commoditised voicemail service into a super-charged engagement platform that those operators can use to interact naturally with their subscribers at a far higher frequency than would otherwise be possible.

Norwood's industry peers have recognised the value of its transformative innovations, highlighted by Norwood reaching the finals of Australia's highly-regarded National iAwards programme in the past five years running (2014-2018), and winning a National iAward in 2014, 2015 and 2017, succeeding in highly-contested judging sessions of Australia's best IT innovations in those years.

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## About Norwood Systems

Norwood Systems Limited (ASX: NOR) is revolutionising mobile voice, messaging, data and cyber security services through its pioneering award-winning virtual mobile services platform, Corona® and its award-winning Apps, World Phone®, World Message™, World Secure™, World Wi-Fi™ and most recently World Voicemail™.

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.

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# Appendix 4E

ABN: 15 062 959 540

Given in accordance with ASX Listing Rule 4.3A



## Appendix 4E

### PRELIMINARY FINAL REPORT FOR THE YEAR ENDED 30 JUNE 2018

The following sets out the requirements of the Appendix 4E with the stipulated information either provided here or cross-referenced to the 30 June 2018 Annual Financial Report, which is attached.

The following is a summary of the financial results for the financial year ended 30 June 2018 for Norwood Systems Limited and its controlled entities. Unless otherwise stated all figures are provided in AUD.

#### 1. Company details & reporting period

Norwood Systems Limited and its controlled entities ("the Group")

Year Ended	Previous Corresponding Period
30 June 2018	30 June 2017

#### 2. Results for announcement to the market

Comparison to previous period	Increase/ (Decrease)	30 June 2018 \$	30 June 2017 \$
Revenue from continuing operations	45.2%	296,608	204,267
Loss from ordinary activities after tax attributable to members	(40.1%)	(4,044,223)	(6,753,359)
Net loss for the year attributable to members	(40.1%)	(4,044,223)	(6,753,359)

#### 3. Commentary on the results

Refer to the Review of Operations on page 20 of the attached Annual Financial Report for the period ended 30 June 2018.

#### 4. Statement of Profit or Loss & Other Comprehensive Income with notes to the statement

Refer to the attached Annual Financial Report for the year ended 30 June 2018:

- Consolidated Statement of Profit or Loss and Other Comprehensive Income
- Notes to the Consolidated Financial Statements

#### 5. Statement of Financial Position with notes to the statement

Refer to the attached Annual Financial Report for the year ended 30 June 2018:

- Consolidated Statement of Financial Position
- Notes to the Consolidated Financial Statements

#### 6. Statement of Cash Flows with notes to the statement

Refer to the attached Annual Financial Report for the year ended 30 June 2018:

- Consolidated Statement of Cash Flows
- Notes to the Consolidated Financial Statements

## Appendix 4E (Cont'd)

### SUMMARY RESULTS FOR THE YEAR ENDED 30 JUNE 2018

#### 7. Dividends

There were no dividends declared or paid during the year.

#### 8. Statement of Changes in Equity

Refer to the attached Annual Financial Report for the year ended 30 June 2018:

- Consolidated Statement of Changes in Equity
- Notes to the Consolidated Financial Statements

#### 9. Earnings Per Share (EPS)

	30 June 2018	30 June 2017
Basic loss per share (cents per share)	(0.34)	(0.68)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,175,611,809	987,955,743

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.

#### 10. Net Tangible Asset (NTA) Backing Per Share

	30 June 2018	30 June 2017
Net tangible asset backing per share (cents per share)	0.0003	0.0008

#### 11. Entities over which control has been gained during the year

Not applicable

#### 12. Any other significant information needed by an investor to make an informed assessment of the Group's financial performance and position

All significant information has been included elsewhere in this document or in the Annual Financial Report for the year ended 30 June 2018.

#### 13. Audit qualification or review

The financial statements have been audited and an unqualified opinion has been issued.

#### 14. Signed



Mr Paul Ostergaard

Managing Director

31 August 2018



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# Annual Report

For the year ended 30 June 2018

ABN: 15 062 959 540



**norwood**  
connect globally, locally™

# Corporate Information

## Directors:

Mr Paul Ostergaard  
Managing Director

Mr Amit Pau  
Non-Executive Chairman

Mr Mike Edwards  
Non-Executive Director

Mr Giles Everist  
Non-Executive Director

## Company Secretary:

Mr Steven Wood

## Auditors:

BDO Audit (WA) Pty Ltd  
38 Station Street,  
Subiaco, WA 6008  
Telephone: +61 8 6382 4600

## Share Registry:

Link Market Services Limited  
Level 4 Central Park,  
152 St Georges Terrace,  
Perth, WA 6000  
Telephone +61 1300 554 474

## Lawyers:

Steinepreis Paganin  
Level 4, The Read Building,  
16 Milligan St,  
Perth, WA 6000

## Bankers:

Bankwest  
150 Rokeby Road,  
Subiaco, WA 6008

Westpac Banking Corporation  
Level 14, 109 St Georges Terrace,  
Perth, WA 6000

## Registered & Principal Office:

4 Leura Street,  
Nedlands, WA 6009

Telephone: +61 8 9200 3505  
Email: [info@norwoodsystems.com](mailto:info@norwoodsystems.com)  
Website: [www.norwoodsystems.com](http://www.norwoodsystems.com)

## Postal Address:

4 Leura Street,  
Nedlands, WA 6009

## Home Securities Exchange:

Australian Securities Exchange Limited  
Level 40, Central Park,  
152-158 St George's Terrace  
Perth, WA 6000

## ASX Code:

NOR

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About

Norwood Systems



# About Norwood Systems

Norwood Systems is revolutionising mobile voice, messaging, data and cyber security services through its pioneering award-winning mobile services platform, Corona® and its award-winning Apps, World Phone®, World Message™, World Wi-Fi™, World Secure™ and most recently World Voicemail™. Its 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 Loyalty Partner channels.

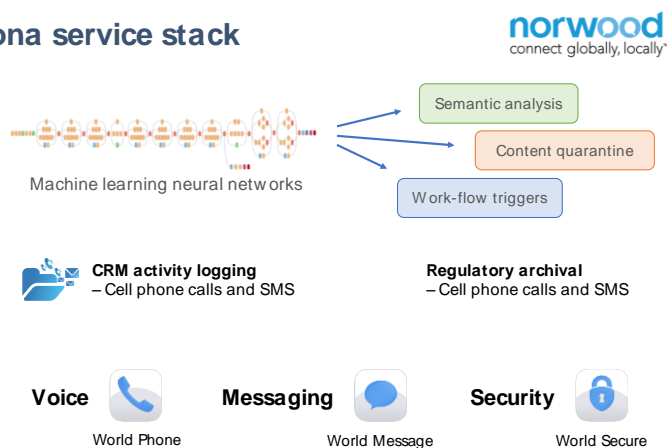
## Enterprise

Norwood has created the powerful Virtualised Business Mobile Service (VBMS) platform to make it far easier and more productive to manage mobile services within an organisation. Mobile services to date have mostly been treated as isolated networks of connectivity from the Enterprise perspective. It is very difficult, if not impossible in many jurisdictions, to link mobile services with corporate IT platforms, despite the obvious advantages that could flow from such interconnections.

Norwood’s VBMS platform solves this problem for organisations by “virtualising” a mobile service on an employee’s personal handset, in a manner that allows the virtual service to be paid for and managed by their employer as a separate mobile identity on the handset. This virtualised mobile service in turn can be linked effortlessly using Norwood’s award-winning platform, Corona®, into core Enterprise IT systems, such as clients’ CRM or Archival platforms, capturing vital data on how employees interact with outside stakeholders, customers and partners.

Norwood has been working intensively over the past year to add depth and value to its VBMS offering, “moving up the stack” from capturing basic call and message meta-data a year ago, to capturing content, and then finally to delivering machine-learning-enabled capabilities to analyse the content of calls and messages for sentiment and other insights of interest to Norwood’s Enterprise clients.

### Evolution of the Corona service stack



### Norwood’s VMBS and Corona Service Stack Evolution

The corporate applications enabled by Norwood’s VBMS and Corona Service Platforms include:

**Mobile Cost 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.

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**CRM Auto-Capture** provides rich data on all business-related calls and texts instantly into your CRM, so you can improve sales productivity and customer service. Knowing more about your customers is the key to better service.

If you have a field force or a flexible workforce, you can bet most of their calls and texts aren't being entered in your CRM. With instant automatic logging, your teams can smoothly manage incident handoffs between field staff and the office, and you can better manage service satisfaction.

**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.

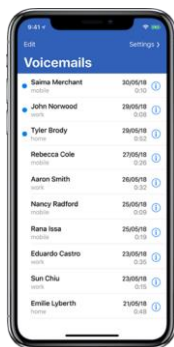
**Compliance Management** assists corporate communications where sharing sensitive information is prevalent. Government, Health and Finance sectors especially require the recording and archival of such information. Corona® facilitates corporate communications so compliance to industry regulations becomes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

The Corona Service Platform enables seamless and compliant metadata and deep data collection on selected or all communication events, fulfilling regulatory obligations, and providing rich insights to its clients.

## Telco

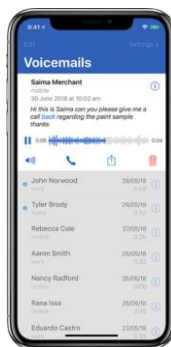
Norwood Systems has re-focused its Telco go-to-market strategy to emphasise Norwood's new World Voicemail platform.

### Easy to use



State-of-the-art user experience on both iOS and Android

### Personalised



Multi-language voicemail transcription. User interface is localisable into your choice of language. Can also be delivered via SMS or email

### Powerful



Revolutionary text-searchable voicemail archive to create user 'stickiness' and reduce churn

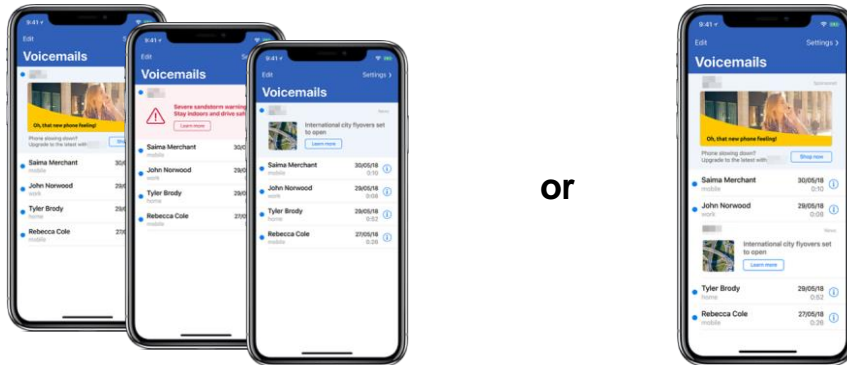
World Voicemail, at its most basic level, transforms a hard-to-use dial-up voicemail service for an end user into a high-quality visual user experience, delivered by Norwood's World Voicemail App. Norwood has received extremely positive feedback from end users and prospective Telco clients on the general transformative quality of using the World Voicemail App.

It is well recognised that Telcos around world are facing a severe commoditisation of their service offerings. For example, many mobile plans now offer unlimited local minutes and text messages and differentiate primarily on plan price and the amount of 3G/4G data provided.

So, at a more fundamental level, Norwood is positioning the World Voicemail platform as a **tool** to help Telcos combat this commoditisation and to help drive additional subscriber engagement without appearing to spam or interrupt those subscribers. When subscribers check their voicemails using World Voicemail, Telcos have their customers' attention and eyeballs, offering the opportunity for additional visual engagement as depicted below:

**Offers / Alerts / News – single-message feed**

**Multi-message feed**



or

A variety of news, alert and promotional channels can be combined to **drive customer engagement KPIs**

Such engagement visuals are enabled through the World Voicemail platform's "Engagement Application Programming Interface (API)", which enables the Telcos to interact directly with subscribers in an unobtrusive manner when on the World Voicemail screen.

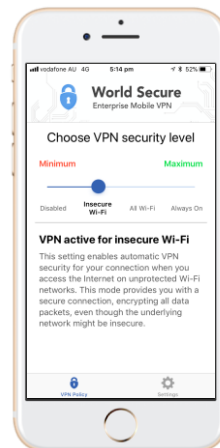
Norwood will release a complementary software development kit (SDK) in the first half of this new financial year, to enable Telcos to integrate visual voicemail functionality directly into their own customer care App, driving substantial potential additional subscriber engagement with such Apps.

**Loyalty**

Norwood's Systems' Automatic Wi-Fi Cyber-security (World Secure) and Wi-Fi Discovery and Connectivity (World Wi-Fi) solutions enable Norwood's Loyalty Partners to create compelling new fully-featured and highly differentiated digital propositions in short order, that can be easily distributed to members of service providers' loyalty programmes.

World Secure is being marketed and sold to Norwood's Loyalty Partners as an ultra-low-cost way to protect members of their clients' Loyalty Programmes from inadvertent data loss or compromise when using insecure Wi-Fi networks. It is, to Norwood's best understanding, the only platform worldwide that can automatically activate cyber-protection when an end user attempts to connect to an insecure Wi-Fi network.

- **Secure and forget**
- No need to remember to activate it
- No logging-on and logging-off
- **Auto-detects** new connections and initiates VPN in line with Security Level or MDM policy

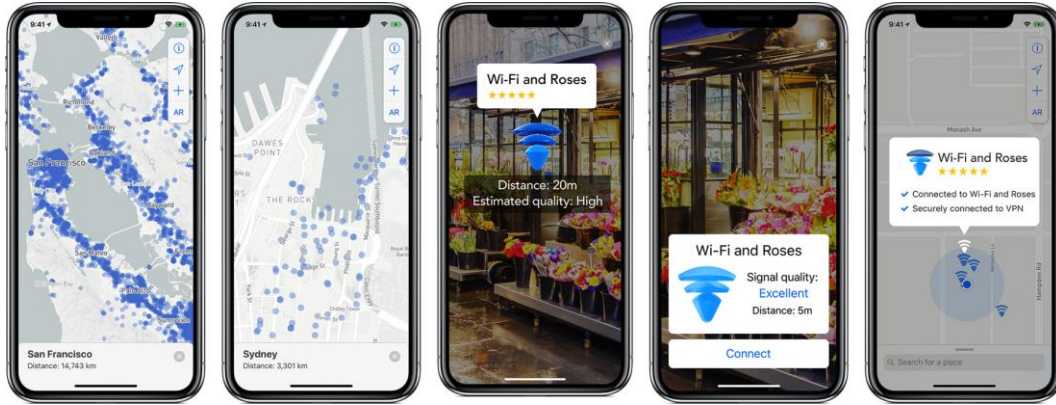


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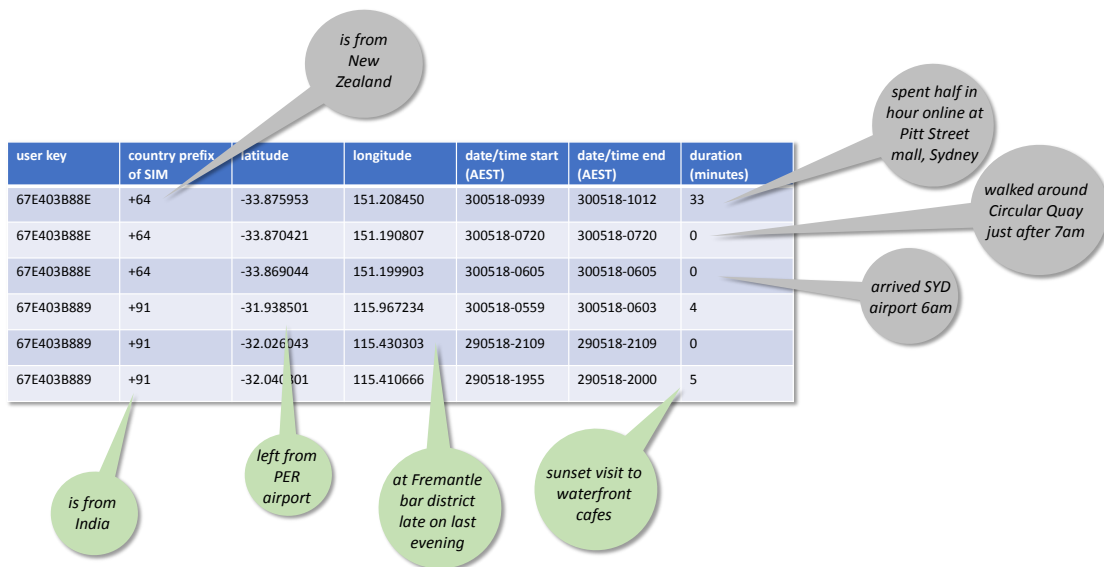
One of Norwood’s existing Loyalty Partners has been very active over the second half of the past financial year investigating potential go-to-market opportunities for World Secure, and Norwood is increasingly confident of securing further commercial progress for World Secure as a Loyalty offering over the coming months.

Norwood’s World Wi-Fi platform has seen further enhancements over the past year, with World Wi-Fi for Android and World Wi-Fi for iOS V2.0 being released earlier in the year:



World Wi-Fi for iOS V2.0

The Company is currently progressing multiple parallel discussions with a variety of Loyalty Partners and other travel-focused organisations who could also benefit from the (user permitted) data delivered by the World Wi-Fi App.



Example of World Wi-Fi data analytics capabilities

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# Managing Director's Remarks



# Managing Director's Remarks

As a Company, we are delighted to present the Norwood Systems Limited (Norwood) FY18 annual financial report. This has been a strong year for Norwood defined by continued interest from top tier partners and re-energized interest from travel and loyalty prospects in the now launched **World Wi-Fi** and **World Secure** products. Significant client progress in conjunction with strong financial discipline we have seen and will continue to see a reduction in cash operating costs. This reduction in costs stems from the hard work of the Norwood team and is supported by rising cash receipts. In keeping with our high customer retention and satisfaction rates, we remain confident that material prospects will continue to bolster the Company's revenue going forward.

## Results

Norwood delivered a net loss for the year ending 30 June 2018 of \$4,044,223 reflecting the significant investment that we have made in technology and marketing. This investment was made following careful consideration and extensive modelling, and we are pleased with the results and are confident in the returns this platform will deliver. Prior to 30 June 2018, the Company successfully completed two share Placements and a fully underwritten Share Purchase Plan to raise \$3.06 million (before costs). Further to this, Norwood received its Australian Tax Office (ATO) Research and Development (R&D) Grant of \$869,481 in August 2018. This coupled with constant prudent cash control and increasing customer cash receipts, gives the Board confidence that the short-term capital requirements of the Company are in hand.

## World Phone

Throughout FY18, World Phone has continued to grow substantially into a significant offering that incorporates new features which have revolutionised how clients view Norwood's services. The launch of **World Secure** at the beginning of the year addresses a major problem for many enterprises today: how to secure employees' smartphone Internet sessions automatically when they are using public, insecure Wi-Fi network, and this has bolstered our suite of products for consumers and businesses.

World Phone continues to go from strength to strength and post financial year end Norwood released version 3.5 featuring embedded machine learning support across World Phone & Corona for voice transcription and sentiment analysis, plus embedded machine learning support for advanced image classification capabilities in **World Message**.

Throughout FY18 we continue to develop and deepen long-term collaborations with tier-one go-to market partners, including RAC, Visa, Affinion and Thomas Cook. These partnerships are a testament to the Company's commercialisation strategy of targeting the Loyalty sector by marketing World Phone as easy-to-use Loyalty benefits focused Apps.

A key partnership in FY18 was with Fon, to expand Norwood's World Wi-Fi service, using Fon's global Wi-Fi footprint. This agreement with Fon as a strategic Wi-Fi access partner helps our World Wi-Fi users enjoy the benefit of secure, super-fast Wi-Fi access at millions of locations around the world. In addition to the partnership with Fon, Norwood entered into a live customer pilot trial with Thomas Cook Money Australia Pty Ltd ("Thomas Cook Money") for the bulk sale of World Wi-Fi subscriptions, for the use of Thomas Cook Money customers. This partnership demonstrates the simplicity and usability of Norwood's products and confirms the Company's view that there is strong potential for **World Wi-Fi** to be a bundled benefit for travel and other loyalty schemes, addressing the \$50 billion global loyalty benefits market.

We have continued to drive development and improve World Phone further, and post financial year end we released **World Voicemail** – furthering bolstering our product offering. Norwood will continue to explore a number of growing opportunities and accounts in our sales pipeline for the Loyalty segment and our aim is to convert these prospects into revenue generating clients.

## Corona

Corona continues to attract significant sales interest, driven primarily by the interest in use as a 'bring your own device' (BYOD) platform, alongside extensive compliance and primary benefits for certain segments. Norwood has mostly been engaged with four key strategic partners: Oracle, Veritas, Global Relay and AddCom. Norwood's revolutionary and unique

Over the Top (OTT) BYOD service allows users of Corona to have a separate and enterprise-administered mobile identity covering both calls and messages utilising standard mobile phone numbers within the one handset.

Over the year, Norwood has been developing strategic partnerships by furthering enhancing and developing our product offering to existing clients. Relationships with Oracle and developing partnerships with Veritas and AddCom are a tribute to the significant progress of Corona sales activity, achieving strong growth across all targeted priority segments, culminating in signed agreements. The partnership with Oracle has presented further opportunity for sales growth, as Norwood is now actively working with their sales organisations on three continents. Norwood has been working with a potential new partner (an established AI specialist, introduced to Norwood by Oracle), who has used Norwood's new published APIs to acquire metadata, voice recording and transcripts of World App mobile conversations in real-time, returning a detailed sentiment analysis of each conversation, which Norwood's Corona CRM platform then delivered back into Oracle's Sales Cloud CRM. Norwood has also been invited by Oracle to showcase this capability at the upcoming Oracle OpenWorld 2018 event in San Francisco in October.

The Enterprise offering is the strongest it has been, with core durable propositions now complete and spanning Enterprise BYOD, Compliance and CRM capture and logging services. Both the Corona CRM and Corona Compliance solutions that Norwood's strategic partners are taking to market are based on Norwood's Virtual Business Mobile Services (VBMS) architecture. Further development to the Company's Enterprise offering throughout the year, is a 'Direct MDM App Provisioning Option' to its Enterprise clients, bypassing the need for their employees to download World Apps personally from the iTunes App Store or Google Play store. This provides a streamlined app deployment option for corporate clients and further enhances the accessibility and usability of Norwood's products.

## Strategic Platform

The aim of all this activity is to continue to revolutionise telecommunications. We strive and will continue to develop versatile and innovative service platforms that combine Norwood's cloud services and Apps with a wide range of network providers. We want users to be able to connect their smart- phone effortlessly and simply to local networks around the world via our award-winning apps.

Our mission is to deliver disruptive end-user communication Apps that streamline and simplify how users around the world can access affordable, high-quality telecommunications services.

The launch of the Virtual Business Phone concept, a major and coherent milestone on the strategy path that we laid out when we launched Corona in 2014, we have achieved a major advance in OTT sector and we endeavour to keep reaching these milestones to create a seamless platform for users and investors.

## Looking Forward

In closing, this year has cemented Norwood as a pioneer transforming the way we connect through our products and offering. We've accomplished key goals and targets set out for the year and we have developed and further engaged in strategic partnerships, as part of our go-to-market commercialisation strategy. Norwood continues to deliver on enhancement to all our products, taking them from strength to strength – in addition to providing new products for the market to experience. As a Company we are confident about our future and are looking forward to the year ahead.

I look forward to updating you in FY19 and beyond.



Mr Paul Ostergaard

Managing Director

31 August 2018



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# Directors' Report

For the year ended 30 June 2018

ABN: 15 062 959 540





# Directors' Report

FOR THE YEAR ENDED 30 JUNE 2018



## Directors

Your Directors have delight in presenting their report together with the financial proclamations of the Group comprising of Norwood Systems Limited and the entities it controlled for the financial year ended 30 June 2018. So as to consent to the arrangements of the Corporations Act 2001, the Directors' report as follows:

The Directors in office at any time during the financial year and up to the date of this report are as follows:

### **Amit Pau**

Non-Executive Chairman

### **Paul Ostergaard**

Managing Director

### **Michael Edwards**

Non-Executive Director

### **Giles Everist**

Non-Executive Director

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management



#### **Amit Pau**

**Non-Executive Chairman**

Mr 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.

**Other current directorships of ASX listed companies:** Nil

**Other directorships held in ASX listed companies in the last three years:** Nil

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management (Cont'd)



#### **Paul Ostergaard**

**Managing Director**

The Founder of Norwood Systems the key driver of Norwood's strategic vision for delivering its portfolio of advanced Over-The-Top (OTT) communications and security solutions.

Responsible for the company's overall strategic direction, and planning, 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 start-ups 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 Limited, the award-winning technology pioneer in fixed mobile convergence platforms, founded in 1999.

Previously, Paul headed the global platform marketing strategy for a \$1 billion systems platform at 3Com Corporation, leading the platform's brand and core technology development across seven divisions and 37 product lines. During his tenure at 3Com, worldwide market share for this platform increased to an all-time peak of 35% with sales increasing at an average of 50% p.a. to reach \$1.2 billion in annual revenues.

He was previously a finalist in the Ernst & Young Entrepreneur of the Year competition (London region) and has been invited to speak at events such as Catalyst, ETRÉ and the Bluetooth SIG conferences. In 2015, Paul was named to Engineers Australia's list of Top 100 Most Influential Engineers in Australia.

Paul holds a Bachelor of Electronic Engineering from the University of Western Australia, where he is the 2016 Alumni Award Winner for Innovation and Entrepreneurship, and holds an MBA from INSEAD

**Other current directorships of ASX listed companies:** Nil

**Other directorships held in ASX listed companies in the last three years:** Nil

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management (Cont'd)



#### **Michael Edwards**

**Non-Executive Director**

Mr 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. Mr Edwards is an Authorised Representative of Alto Capital, a Perth based Investment and Corporate Advisory firm and has been involved in the successful capital raising and ASX listings of many companies.

#### **Other current directorships of ASX listed companies:**

Non-Executive Director – DE Mem Ltd

Non-Executive Director – Dawine Ltd

Non-Executive Director – Serpentine Technologies Pty Ltd

#### **Other directorships held in ASX listed companies in the last three years:**

Non-Executive Chairman – International Goldfields Ltd

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management (Cont'd)



#### Giles Everist

Non-Executive Director

Mr 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 financial 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 current Director of ASX listed company Austal Limited and Chief Financial Officer of Macmahon Holdings Limited. Mr Everist has previously sat on the boards of technology start-ups such as APE Mobile, which specialises in paperless apps for the construction industry, and qodeo, which produces time and money saving tools, data & connectivity for the global venture community. 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.

#### Other current directorships of ASX listed companies:

Non-Executive Director – Austal Limited

#### Other directorships held in ASX listed companies in the last three years:

Non-Executive Director – Macmahon Holdings Limited

Non-Executive Director – Decmil Group Limited

Non-Executive Director – Logicamms Limited



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management (Cont'd)

#### Steven Wood

Company Secretary

Mr Wood has specialised in corporate advisory, company secretarial & financial management services professionally since 2011. Mr Wood 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.



#### 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.



#### Nick Horton (resigned 25<sup>th</sup> May 2018)

General Manager Consumer & Vice President Marketing

Nick was 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 and 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.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Particulars of Directors, Company Secretary and Executive Management (Cont'd)

#### David Wilson (resigned 3<sup>rd</sup> January 2018)

Chief Technology Officer

With 20 years 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.

Previously David held roles of Chief Information Officer and Chief Financial Officer at Ocean Broadband 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, and achievement that was featured in several national Australian new publications.

David was the Lead Developer at 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 a MBA from the University of Western Australia.

#### Principal Activities

The principal activities during the year include:

- Two new executives, Noel Northcott and Aidan Montague, to drive Norwood's revenue, commercialisation and marketing activities.
- Launch of **World Voicemail** post financial year end.
- Development and launch of **new Sentiment Analysis capabilities** for **World Phone** and **Corona**.
- Agreement signed with Thomas Cook Money for the purchase of **World Wi-Fi** subscriptions as part of a pilot program.
- Partnership with Fon to expand Norwood's **World Wi-Fi** service footprint using Fon's global footprint.
- Norwood delivers revolutionary **World Wi-Fi** App on the Android platform.
- Increased product development activities in the last quarter, including;
  - **World Phone 3.5**
  - **World Message 2.5**
  - **World Wi-Fi 2.0**
- Ongoing deepening of channel partner relationships with Oracle and Veritas.
- Co-marketing partnership with Visa to promote **World Apps** on Visa marketing platforms.
- **World Phone** offer to RAC Travel members and customers launched.
- Launch of **World Secure**, the Company's first cyber-security service.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Results

The net loss attributable to members of the Group for the year ended 30 June 2018 amounted to \$4,044,223 (2017: \$6,753,359).

### Dividends

There were no dividends paid or declared during the year.

### Review of Operations

The first half of the year continued the momentum of developing our Corona CRM services and rolling these out to business as part of our long-term commercialisation strategy. Norwood now has completed platform coverage across iOS and Android, full archival features into CRM, mobile device management support and a great price for virtual numbers. The Company is constantly strengthening its already diversified portfolio of differentiated and novel mobile services, which are all available on the App Stores.

Sales growth has been driven by significant third-party interest in **World Wi-Fi** and **World Secure** products. Partnerships with Oracle and Veritas demonstrate the interest by major international partners in Norwood. There are a number of opportunities for Norwood's products for near upfront revenue, both on the consumer side and the enterprise side. The Company is confident that its refreshed portfolio of virtual mobile services is gaining traction in the market.

Norwood is targeting sales in **World Wi-Fi** as a bundled benefit for travel and loyalty schemes, addressing the \$50 billion global loyalty benefits market. The pilot program signed with Thomas Cook Money post financial year end, is the purchase of World Wi-Fi subscriptions. World W-Fi will be used by Thomas Cook Money as a bundled additional value proposition for potential purchasers of Travel Insurance, as Thomas Cook Money enters the Australian market in 2018. The initial revenue impact of the paid pilot is immaterial to the Company, however given the substantial size of the Thomas Cook Group, with over £9 billion in sales across 17 source markets, and evident expertise in leisure travel sales, Norwood believes that subject to a successful pilot program there are potential material revenue impacts that may flow from any subsequent agreement with Thomas Cook Money.

There is continued interest in Corona and at the beginning of FY18, Norwood became an accredited Veritas Technology Partner with Veritas Technologies, Inc., a leading global data management and information government company, headquartered in Mountain View, California. This partnership with Veritas has been significant for Norwood as it has allowed the Company to expand significantly the number of large customers to target with the unique Corona Compliance archival proposition.

In January, Norwood signed a contract for its **Corona Compliance** solution with highly-regarded US-based Investment Bank, JMP Securities. This is the first US-based client contract for Norwood's Corona Compliance solution, which enables firms in the financial services sector to achieve compliance with FINRA (US) and MiFID II (Europe) regulations covering the need to archive business communications, including smartphone voice calls and text messages. This agreement with JMP will assist Norwood in progressing additional US-based Corona Compliance deals currently in its sales pipeline, in addition to providing an important proof point for potential US-based channel partners.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Review of Operations (Cont'd)

Norwood now offers a 'Direct MDM App Provisioning Option' to its Enterprise clients, bypassing the need for their employees to download World Apps personally from the iTunes App Store or Google Play Store. Instead the World Apps are directly provisioned on employee devices using the Enterprise client's Mobile Device Management (MDM) platform. Coupled with Norwood's direct MMD App Configuration Option, Enterprise IT Administrators now have a zero-touch World App Deployment model available, allowing for potentially thousands of devices to be provisioned and configured virtually immediately to use Norwood's Virtual Business Mobile Services (VBMS). This offering is yet another demonstration of Norwood's innovative and changing suite of products. The feedback that Norwood has received in its recent interactions with large potential and prospective partners is that they are drawn to Norwood due to the strength and spread of Norwood's portfolio of novel mobile services.

#### Norwood developments

During the year the Company launched **World Secure**, a cyber-security tool and associated cloud service platform which addresses a core problem many enterprises face: how to secure employees' smartphone internet sessions automatically when they are using public, insecure Wi-Fi network or when new Wi-Fi threats have been discovered. World Secure is Norwood's first cyber-security offering targeting the corporate and it draws on key learnings that we have gained during the development of our **World Wi-Fi** App.

Post financial year end, Norwood released **World Voicemail**, an advanced visual voicemail app offered as a "bolt-on" value-added service. Consumers can download World Voicemail from the App Store and enjoy a spam-free visual voicemail experience. The App delivers a unique ability for consumers to search their voicemail archive using simple text queries, with no intrinsic upper storage limit in the App.

In addition, Norwood has also released new AI-enabled Mobile Analytics capability revolutionising how companies can cost-effectively capture a real-time, deep and qualitative perspective of business-related employee conversations with external stakeholders whilst preserving privacy for employees' personal mobile conversations. The Company is working with two of its key partners, Oracle and Veritas, on several mobile sentiment-analysis related opportunities that are an early stage of development and it hopes to report back to the market on progress in this pioneering area for Norwood, as one or more of these opportunities develops further.

#### Corporate

Norwood was pleased to complete an oversubscribed single tranche placement to institutional and sophisticated investors in November 2017 for \$1.06 million. Net proceeds from the Placement have been used for sales and marketing activities and general working capital. In addition, Norwood raised a further \$2 million via a Placement and a fully underwritten Share Purchase Plan announced in March and April 2018.

Norwood received payment from the Australia Tax Office of \$924,092 pursuant to the Commonwealth Research and Development Tax Incentive Program in September 2017.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Significant Changes in State of Affairs

There have 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 & Expected Results of Operations

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.

### Environmental Regulation and Performance

The Directors believe that the Group has, in all material respects, complied with all particular and significant environmental regulations relevant to its operations. The Group's operations comply with NGER Act 2007.

### Events Subsequent to Reporting Period

Date	Details
3 July 2018	<b>World Wi-Fi Pilot with Leading Leisure Travel Group</b> Agreement signed with Thomas Cook Money for the purchase of World Wi-Fi Subscription as part of a paid pilot program.
24 July 2018	<b>Appointment of Two New Senior Sales and Marketing Executives</b> Mr Noel Northcott and Mr Aidan Montague appointed as Senior Executives to focus on sales execution, marketing strategy and lead generation.
30 July 2018	<b>Norwood Launches World Voicemail</b> Advanced visual voicemail app and its associated cloud service offered as "bolt-on" visual voicemail Value-Added Service for Telcos and Consumers.
30 August 2018	<b>Norwood Receives R&amp;D Tax Offset and Retires Funding Arrangement</b> The Company advised the receipt of \$869,481 in respect of its FY18 R&D rebate from the ATO. The funds have been applied to the retirement of the R&D tax offset funding agreement noted in the December 2017 Quarterly Activity Report, with approximately \$482,000 in surplus cash to be applied for working capital purposes.



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Indemnification and Insurance of Directors and Officers

During the financial year, the Company incurred a premium of \$24,843 excluding GST (2017: \$11,236) to insure the Directors and Secretary of the Company.

### Directors' Interests in the Shares and Options of the Company

As at the date of this report, the interests of the Directors in ordinary shares, unlisted options and performance shares of the Company were:

Director	Shares		Options		Class A Performance Shares		Class B Performance Shares	
	Held Directly	Held Indirectly	Held Directly	Held Indirectly	Held Directly	Held Indirectly	Held Directly	Held Indirectly
Paul Ostergaard	-	201,723,481	-	24,000,000	-	-	-	-
Michael Edwards	-	4,900,770	-	4,250,000	-	-	-	-
Giles Everist	-	-	-	3,250,000	-	-	-	-
Amit Pau	-	312,500	3,000,000	1,687,500	-	-	-	-
<b>Total</b>	-	<b>206,936,751</b>	<b>3,000,000</b>	<b>33,187,500</b>	-	-	-	-

### Meetings of Directors

The number of meetings of the Company's Directors held during the year and the numbers of meetings attended by each Director are:

Board of Directors	Meetings Attended	Meetings Eligible to Attend
Paul Ostergaard	10	10
Michael Edwards	10	10
Amit Pau	10	10
Giles Everist	10	10

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Remuneration Report (Audited)

This report outlines the remuneration arrangements in place for Directors and key management personnel of the Company for the year ended 30 June 2018. The information contained in this report has been audited as required by section 308(3C) of the Corporations Act 2001. The information provided includes remuneration disclosures that are required under Accounting Standard AASB 124 "Related Party Disclosures". These disclosures have been transferred from the Financial Report.

This remuneration report details the remuneration arrangements for key management personnel ("KMP") who are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company, and includes the following specified executives in the Company:

#### Key Management Personnel

##### Directors:

Mr Paul Ostergaard	Managing Director	Appointed 8 June 2015
Mr Amit Pau	Non-Executive Chairman	Appointed 8 June 2015
Mr Michael Edwards	Non-Executive Director	Appointed 8 June 2015
Mr Giles Everist	Non-Executive Director	Appointed 13 November 2015

##### Executives

Mr Steven Wood	Company Secretary	Appointed 16 August 2016
Mr David Wilson	Chief Technology Officer	Appointed 8 June 2015, Resigned 3 January 2018
Mr Steven Tot	General Manager Enterprise & Vice President Sales	Appointed 19 October 2015
Mr Nicholas Horton	General Manager Consumer & Vice President Marketing	Appointed 1 January 2016, Resigned 25 May 2018

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Remuneration Report (Audited) (Cont'd)

#### Remuneration Policies

Remuneration levels for Directors, secretaries and, if required, senior executives of the Company ("the Directors and senior executives") will be competitively set to attract and retain appropriately qualified and experienced Directors and senior executives. The Board may obtain independent advice on the appropriateness of remuneration packages given trends in comparative companies both locally and internationally and the objectives of the Company's remuneration strategy. During FY18, the Company engaged BDO Remuneration and Reward (BDO) to provide a range of remuneration services including benchmarking of KMP remuneration. BDO did not provide any remuneration recommendations (as defined in the Corporations Act) during the year ended 30 June 2018. BDO was paid a total of \$9,750 (excluding GST) for these services.

The remuneration structures explained below are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders. The remuneration structures take into account:

- the capability and experience of the Directors and senior executives;
- the Directors and senior executives ability to control the relevant performance;
- the entity's performance; and
- the amount of incentives within each Directors and senior executive's remuneration.

Remuneration packages include a mix of fixed remuneration and variable remuneration and short and long-term performance-based incentives.

#### Fixed Remuneration

Fixed remuneration consists of base remuneration, as well as employer contributions to superannuation funds.

Remuneration levels are, if necessary reviewed annually by the Board through a process that considers individual and overall performance of the entity. If required, external consultants provide analysis and advice to ensure the Directors' and senior executives' remuneration is competitive in the market place.

#### Performance-Linked Remuneration

The remuneration policy will be tailored to increase goal congruence between shareholders and Directors and key management personnel. This will be facilitated through bonus schemes and the issue of options and performance securities to key management personnel to encourage the alignment of personal and shareholder interests. The Group believes this policy will be effective in increasing shareholder wealth. Currently, remuneration is incentive-based however efforts have been made to progressively move towards a performance-linked remuneration policy.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Performance-Linked Remuneration (Cont'd)

Principles used to determine the nature and amount of variable remuneration: Relationship between remuneration and company performance.

As the Group is currently in the start-up phase, the Directors assess the performance of the Group with regard to the price of the Company's ordinary shares listed on the ASX and the market capitalisation of the Company rather than Group financial performance. As the Company matures, greater emphasis will be placed on performance-linked remuneration. The Company currently has incentives incorporated into executive service agreements based on the execution of material revenue generating contracts which should have direct correlation to company performance.

Directors and executives are issued options and, in some cases, performance securities, to encourage the alignment of personal and shareholder interests.

Options issued to Directors may be subject to market-based price hurdles and vesting conditions and the exercise price of options is set at a level that encourages the Directors to focus on share price appreciation. The Group believes this policy will be effective in increasing shareholder wealth. Key management personnel are also entitled to participate in the employee share and option arrangements.

Performance securities vest on the achievement of operational milestones, providing those directors are holding performance securities as an incentive to meet the operational milestones prior to the expiry date of the performance securities.

On the resignation of Directors any vested options issued as remuneration are retained by the relevant party.

The Board may exercise discretion in relation to approving incentives such as options. The policy is designed to reward key management personnel for performance that results in long-term growth in shareholder value.

In considering the entity's performance and benefits for shareholders' wealth, the Chairman has regard to the following indices in respect of the current financial year and the previous three financial years.

	2018	2017	2016	2015
Net profit / (loss)	(\$4,044,223)	(\$6,753,359)	(\$16,656,439)	(\$5,882,956)
Share price	\$0.007	\$0.015	\$0.030	\$0.033
Change in share price	(\$0.008)	(\$0.015)	(\$0.003)	\$0.023
Earnings per share	(\$0.34)	(\$0.68)	(\$2.01)	(\$1.50)

As the Group is currently in the start-up phase, the Directors assess the performance of the Group with regard to the price of the Company's ordinary shares listed on the ASX and the market capitalisation of the Company rather than Group financial performance.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Service Agreements

It is the entity's policy that service contracts for executive Directors and senior executives be entered into.

A service contract with an executive Director or senior executive would provide for the payment of benefits where the contract is terminated by the entity or the individual. The executive Directors and senior executives would also be entitled to receive on termination of employment their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits.

An executive Director or senior executive would have no entitlement to termination payment in the event of removal for misconduct.

Major provisions of the agreements existing at reporting date relating to executive remuneration are set out below:

#### Mr Paul Ostergaard – Managing Director

- Term of Agreement – ongoing subject to annual review.
- Remuneration – \$286,000 per annum plus superannuation at statutory rates
- Termination Provisions – 6 months' written notice or payment of 6 months' base salary
- Bonuses – bonuses payable to Mr Ostergaard are calculated as follows:
  - An amount equal to 5% of revenues generated by the EUROPA/World Phone platform to the Company (net of payments made to re-sellers of the EUROPA/World Phone Application) in the period of 12 months following the public launch of EUROPA/World Phone; and
  - An amount of \$25,000 payable on satisfaction of a gross revenue target of \$200,000 from a third party contract in a 12 months period for each of the first two separate third party contracts, within 30 months from 8 June 2015.

The above remuneration was a result of the formal remuneration review performed by BDO during the financial year. Mr Ostergaard's remuneration was effective from 1 July 2017.

#### Mr Steven Tot – General Manager Enterprise & Vice President Sales

- Term of Agreement – ongoing subject to annual review.
- Remuneration – \$180,000 per annum plus superannuation at statutory rates.
- Car Allowance – \$15,000
- Bonuses – Mr Tot is entitled to the following bonus payments:
  - An amount of \$120,000 bonus per annum payable for meeting agreed targets. The bonus is paid by meeting a mix of individual performance targets (70%) and Company performance targets (30%) which is calculated and paid quarterly. Individual performance targets include revenue generated by corporate accounts, number of corporate end user licenses and closing of major accounts (>\$200k annualised revenue). Company performance targets include company revenue growth, profitability and reduction in cash burn and total number of end users. Bonus accelerators are applicable where the bonus is multiplied by 1.5 for performance >100% and <125% and 2.5 for performance >125% with no upper cap.



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Service Agreements (Cont'd)

#### Mr David Wilson – Chief Technology Officer (resigned 3 January 2018)

- Term of Agreement – ongoing subject to annual review.
- Remuneration – \$160,000 per annum plus superannuation at statutory rates.
- Termination Provisions – 6 months' written notice or payment of 6 months' base salary.

#### Mr Nicholas Horton – General Manager Consumer & Vice President of Marketing (resigned 25 May 2018)

- Term of Agreement – ongoing subject to annual review.
- Remuneration – \$200,000 per annum plus superannuation at statutory rates.
- Car Allowance - \$15,000
- Bonuses - Mr Horton was entitled to the following bonus payments:
  - An amount of \$100,000 bonus per annum payable for meeting agreed targets. The bonus is paid by meeting a mix of individual performance targets (70%) and Company performance targets (30%) which is calculated quarterly. Individual performance targets include Active World Phone Users, user churn, ARPU per user and total revenue, cost of acquisition per user and migration of World Phone users to CORONA. Company performance targets include company revenue growth, profitability and reduction in cash burn, total number of end users and closing a major white label accounts (>\$200k revenue per annum). Bonus accelerators are applicable where the bonus is multiplied by 1.5 for performance >100% and <125% and 2.5 for performance >125% with no upper cap.
- Termination Provisions – 6 months' written notice or payment of 6 months' base salary.

### Non-Executive Directors and Chairman

Upon appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. The letter summarises the policies and terms, including compensation, relevant to the office of the Director.

The key terms of the Non-Executive Director service agreements are as follows:

- Term of Agreement – ongoing subject to annual review.
- Non-Executive Directors' Fees of \$45,000 per annum.
- Non-Executive Chairman's Fees of \$54,750 per annum.
- There is no notice period stipulated to terminate the contract by either party.

Total remuneration for all Non-Executive Directors, last voted upon by shareholders, is not to exceed \$310,000 per annum and fees are set based on fees paid to other Non-Executive Directors of comparable companies. Directors' base fees are presently set at \$45,000 per annum.

The Company does not have a Director's Retirement Scheme in place at present.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Hedging Exposure

It is the entity's policy that Directors and executives of the Company are required to seek the prior written approval of the Board before entering into hedging arrangements in respect to their holdings of Company equity instruments. The executive or Director must provide full details of any such hedging arrangements for consideration by the Board. The Board will consider each approach for approval on its merits, taking into account the size of the holding, the level of exposure, the repayment requirements and the impact any adverse market conditions may have on the capital structure of the Company.

### Remuneration of Key Management Personnel

Details of the remuneration of the Directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Norwood Systems Limited are set out in the following table:

#### Key Management Personnel of Norwood Systems Limited

2018	Salary & Fees	Non-Monetary	Post-Employment Benefits	Share Based Payments	Total	Performance Related
			Superannuation \$	Options		
<b>Key Management Personnel</b>	\$	\$	\$	\$	\$	%
<b>Executive Directors</b>						
Mr Paul Ostergaard	\$286,000	-	\$27,170	\$62,995	\$376,165	-
<b>Total Executive Directors</b>	<b>\$286,000</b>	<b>-</b>	<b>\$27,170</b>	<b>\$62,995</b>	<b>\$376,165</b>	<b>-</b>
<b>Non-Executive Directors</b>						
Mr Michael Edward	\$45,000	-	-	\$14,583	\$59,583	-
Mr Amit Pau	\$54,750	-	-	\$19,687	\$74,437	-
Mr Giles Everest	\$41,096	-	\$3,904	\$14,583	\$59,583	-
<b>Total Non-Executive Directors</b>	<b>\$140,846</b>	<b>-</b>	<b>\$3,904</b>	<b>\$48,853</b>	<b>\$193,603</b>	<b>-</b>
<b>Total Directors</b>	<b>\$426,846</b>	<b>-</b>	<b>\$31,074</b>	<b>\$111,848</b>	<b>\$569,768</b>	<b>-</b>
<b>Executives</b>						
Mr Steven Tot	\$195,000	-	\$18,525	\$190,386	\$403,911	-
Mr David Wilson <sup>(1)</sup>	\$116,400	-	\$7,710	-	\$124,110	-
Mr Nicholas Horton <sup>(2)</sup>	\$204,442	-	\$18,448	\$190,386	\$413,275	-
<b>Total Executives</b>	<b>\$515,842</b>	<b>-</b>	<b>\$44,683</b>	<b>\$380,772</b>	<b>\$941,296</b>	<b>-</b>
<b>Total</b>	<b>\$942,688</b>	<b>-</b>	<b>\$75,757</b>	<b>\$492,620</b>	<b>\$1,511,064</b>	<b>-</b>

<sup>(1)</sup> Mr David Wilson resigned on 3<sup>rd</sup> January 2018

<sup>(2)</sup> Mr Nicholas Horton resigned 25<sup>th</sup> May 2018

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Remuneration of Key Management Personnel (Cont'd)

2017 Key Management Personnel	Post-Employment Benefits			Share Based Payments		Performance Related %
	Salary & Fees \$	Non-Monetary \$	Superannuation \$	Options \$	Total \$	
<b>Executive Directors</b>						
Mr Paul Ostergaard	\$175,000	-	\$16,625	-	\$191,625	-
<b>Total Executive Directors</b>	<b>\$175,000</b>	<b>-</b>	<b>\$16,625</b>	<b>-</b>	<b>\$191,625</b>	<b>-</b>
<b>Non-Executive Directors</b>						
Mr Michael Edwards <sup>(1)</sup>	\$44,710	-	-	-	\$44,710	-
Mr Amit Pau <sup>(2)</sup>	\$47,085	-	-	-	\$47,085	-
Mr Giles Everist	\$36,000	-	\$3,420	-	\$39,420	-
<b>Total Non-Executive Directors</b>	<b>\$127,795</b>	<b>-</b>	<b>\$3,420</b>	<b>-</b>	<b>\$131,215</b>	<b>-</b>
<b>Total Directors</b>	<b>\$302,795</b>	<b>-</b>	<b>\$20,045</b>	<b>-</b>	<b>\$322,840</b>	<b>-</b>
<b>Executives</b>						
Mr David Wilson	\$176,393	-	\$16,757	\$1,405,415	\$1,598,565	-
Mr Steven Tot	\$195,000	-	\$18,525	\$203,258	\$416,783	-
Mr Nicholas Horton	\$215,000	-	\$20,425	\$203,258	\$438,683	-
<b>Total Executives</b>	<b>\$586,393</b>	<b>-</b>	<b>\$55,707</b>	<b>\$1,811,931</b>	<b>\$2,454,031</b>	<b>-</b>
<b>Total</b>	<b>\$889,188</b>	<b>-</b>	<b>\$75,752</b>	<b>\$1,811,931</b>	<b>\$2,776,871</b>	<b>-</b>

<sup>(1)</sup> Mr Michael Edwards held the position of Non-Executive Chairman from 1 July 2016 to 12 February 2017 and Non-Executive Director from 12 February 2017 to date.

<sup>(2)</sup> Mr Amit Pau held the position of Non-Executive Director from 1 July 2016 to 12 February 2017 and Non-Executive Chairman from 12 February 2017 to date.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Share Based Compensation

Option tranches L, M & N detailed below were granted during the financial year to key management personnel.

The Company granted the following unlisted options as share based payments. These options are not dependent upon satisfaction of performance conditions and have been issued to increase goal congruence between Shareholders and Directors.

Tranche	Number of Options Issued	Issue Date	Vesting Date	Expiry Date	Exercise Price	Total Value(i)	Recipient	% Vested as at 30 June 2018
D	10,000,000	27 Nov 2015	27 Nov 2018	27 Nov 2020	\$0.135	\$1,143,360	5,000,000 each to Executives Nicholas Horton and Steven Tot.	-
J	2,000,000	2 Aug 2016	Multiple vesting conditions	2 Aug 2021	\$0.057	\$50,800	1,000,000 each to Executives Nicholas Horton and Steven Tot	25%
L	4,187,500	15 Dec 2017	15 Dec 2018	15 Dec 2019	\$0.000	\$83,749	Non-Executive Directors and Non-Executive Chairman	-
M	2,500,000	15 Dec 2017	15 Dec 2017	15 Dec 2019	\$0.023	\$32,358	Managing Director Mr Paul Ostergaard	100%
N	2,500,000	15 Dec 2017	15 Dec 2017	15 Dec 2020	\$0.028	\$30,636	Managing Director Mr Paul Ostergaard	100%

Basis of valuation is based on the Black Scholes Model. The value has been assessed as at grant date in accordance with AASB 2 Share-based Payment.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Share Holdings of Key Management Personnel

The number of ordinary shares of Norwood Systems Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors and Executives	Held at 30 June 2017	On Market Purchase During the Year	Other Changes	Held at 30 June 2018
Mr Paul Ostergaard	200,523,477*	1,200,000	4	201,723,481
Mr Michael Edwards	4,900,770	-	-	4,900,770
Mr Amit Pau	312,500	-	-	312,500
Mr Giles Everist	1,117,558	-	(1,117,558)	-
Mr Steven Tot	100,000	-	-	100,000
Mr Nicholas Horton <sup>(2)</sup>	350,000	-	-	350,000
Mr David Wilson <sup>(1)</sup>	-	-	-	-
<b>Total</b>	<b>207,304,305</b>	<b>1,200,000</b>	<b>(1,117,554)</b>	<b>207,036,751</b>

\* Opening share holdings of Mr. Paul Ostergaard does not agree to Closing Balance as at 30 June 2017 in 30 June 2017 Annual Report. Balance held at 30 June 2017 has been updated above to correctly reflect holding and agrees to ASX Appendix 3Y.

<sup>(1)</sup> Mr David Wilson resigned on 3<sup>rd</sup> January 2018

<sup>(2)</sup> Mr Nicholas Horton resigned 25<sup>th</sup> May 2018

### Option Holdings of Key Management Personnel

The number of options of Norwood Systems Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors and Executives	Tranche	Grant Date	Held at 30 June 2017	% Vested	Exercised	Expired	Held at 30 June 2018	Unvested at 30 June 2018	Max. \$ to vest at 30 June 2018
Mr Paul Ostergaard	A	27 Nov 2015	19,000,000	100%	-	-	19,000,000	-	-
	M	15 Dec 2017	2,500,000	100%	-	-	2,500,000	-	-
	N	15 Dec 2017	2,500,000	100%	-	-	2,500,000	-	-
			24,000,000		-	-	24,000,000	-	-
Mr Michael Edwards	C	27 Nov 2015	3,000,000	100%	-	-	3,000,000	-	-
	L	15 Dec 2017	1,250,000	-	-	-	1,250,000	1,250,000	-
			4,250,000		-	-	4,250,000	1,250,000	

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Option Holdings of Key Management Personnel (Cont'd)

The number of options of Norwood Systems Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors and Executives	Tranche	Grant Date	Held at 30 June 2017	% Vested	Exercised	Expired	Held at 30 June 2018	Unvested at 30 June 2018	Max. \$ to vest at 30 June 2018
Mr Amit Pau	C	27 Nov 2015	3,000,000	100%	-	-	3,000,000	-	-
	L	15 Dec 2017	1,687,500	-	-	-	1,687,500	1,687,500	-
			4,687,500		-	-	4,687,500	1,687,500	-
Mr Giles Everist	H	29 Dec 2015	2,000,000	100%	-	-	2,000,000	-	-
	L	15 Dec 2017	1,250,000	-	-	-	1,250,000	1,250,000	-
			3,250,000		-	-	3,250,000	1,250,000	-
Mr Steven Tot	D	27 Nov 2015	5,000,000	-	-	-	5,000,000	5,000,000	-
	J	2 Aug 2016	1,000,000	25%	-	-	1,000,000	750,000	-
			6,000,000		-	-	6,000,000	5,750,000	-
Mr Nicholas Horton <sup>(2)</sup>	D	27 Nov 2015	5,000,000	-	-	-	5,000,000	5,000,000	-
	J	2 Aug 2016	1,000,000	25%	-	-	1,000,000	750,000	-
			6,000,000		-	-	6,000,000	5,750,000	-
Mr David Wilson <sup>(1)</sup>	E	27 Nov 2015	18,336,111	100%	-	-	18,336,111	-	-
			18,336,111		-	-	18,336,111	-	-

<sup>(1)</sup> Mr David Wilson resigned on 3<sup>rd</sup> January 2018

<sup>(2)</sup> Mr Nicholas Horton resigned 25<sup>th</sup> May 2018



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Performance Share Holdings of Key Management Personnel

The number of performance shares of Norwood Systems Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors and Executives	Held at 30 June 2017	Granted/Expired During the Year	Vested During the Year	Vested but not Exercisable at 30 June 2018
Mr Paul Ostergaard	82,724,348	(82,724,348)	-	-
Mr Michael Edwards	-	-	-	-
Mr Amit Pau	-	-	-	-
Mr Giles Everist	-	-	-	-
Mr Steven Tot	-	-	-	-
Mr Nicholas Horton <sup>(2)</sup>	-	-	-	-
Mr David Wilson <sup>(1)</sup>	-	-	-	-
<b>Total</b>	<b>82,724,348</b>	<b>(82,724,348)</b>	-	-

<sup>(1)</sup> Mr David Wilson resigned on 3<sup>rd</sup> January 2018

<sup>(2)</sup> Mr Nicholas Horton resigned 25<sup>th</sup> May 2018

### Performance Right Holdings of Key Management Personnel

The number of performance rights of Norwood Systems Limited held, directly, indirectly or beneficially, by each Director and key management personnel, including their personally-related entities for the year ended 30 June 2018 is as follows:

Directors and Executives	Held at 30 June 2017	Granted/Expired During the Year	Vested During the Year	Vested but not Exercisable at 30 June 2018
Mr Paul Ostergaard	-	-	-	-
Mr Michael Edwards	-	-	-	-
Mr Amit Pau	-	-	-	-
Mr Giles Everist	-	-	-	-
Mr Steven Tot	-	-	-	-
Mr Nicholas Horton <sup>(2)</sup>	-	-	-	-
Mr David Wilson <sup>(1)</sup>	7,855,548	(7,855,548)	-	-
<b>Total</b>	<b>7,855,548</b>	<b>(7,855,548)</b>	-	-

<sup>(1)</sup> Mr David Wilson resigned on 3<sup>rd</sup> January 2018

<sup>(2)</sup> Mr Nicholas Horton resigned 25<sup>th</sup> May 2018

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Key Management Personnel Loans

#### Ocean Broadband Ltd (Mr Paul Ostergaard – Managing Director)

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 2015. 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 year are as follows:

	Consolidated 2018 \$	Consolidated 2017 \$
Opening balance payable by the Group	40,469	40,469
Loan proceeds (advanced)	-	-
<b>Total payable by / (receivable due to) the Group</b>	<b>40,469</b>	<b>40,469</b>

#### Ostergaard Family Trust (Mr Paul Ostergaard – Managing Director)

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

	Consolidated 2018 \$	Consolidated 2017 \$
Opening balance payable by the Group	58,603	58,603
Loan proceeds (advanced)	-	-
<b>Total payable by / (receivable due to) the Group</b>	<b>58,603</b>	<b>58,603</b>

#### Mr Paul Ostergaard – Managing Director

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

	Consolidated 2018 \$	Consolidated 2017 \$
Opening balance payable by the Group	-	-
Loan proceeds (advanced)	881	881
<b>Total payable by / (receivable due to) the Group</b>	<b>881</b>	<b>881</b>

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Voting of Shareholders at last year's Annual General Meeting

Norwood Systems Limited received more than 91% of "yes" votes on its remuneration report for the 2017 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

- END OF AUDITED REMUNERATION REPORT -

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## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Auditor & Non-Audit Services

BDO Audit (WA) Pty Ltd ("BDO") continues in office in accordance with Section 327 of the Corporation Act 2001. The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company are important.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

During the year, BDO provided non-audit services in the form of a review of the Group's executive and senior management remuneration packages. Total fees for non-audit services in the year ended 30 June 2018 was \$9,750 excluding GST (2017: nil).

### Auditor's Independence Declaration

The auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2018 has been received and can be found on page 49.

### Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought to or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

### Share Options

During the year ended 30 June 2018, nil options were exercised (2017: nil).

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Options over unissued ordinary shares

At the date of this report the following options over ordinary shares in Norwood Systems Limited are on issue and outstanding:

	No. of Options	Exercise Price	Expiry Date
Unlisted Options	36,004,084	\$0.020	27/11/2018
Unlisted Options	2,000,000	\$0.107	29/12/2018
Unlisted Options	10,000,000	\$0.135	27/11/2020
Unlisted Options	6,000,000	\$0.173	27/11/2018
Unlisted Options	9,500,000	\$0.198	27/11/2020
Unlisted Options	6,400,000	\$0.057	02/08/2021
Unlisted Options	9,500,000	\$0.297	27/11/2020
Unlisted Options	32,388,889	\$0.035	22/11/2018
Unlisted Options	4,187,500	\$0.000	15/12/2019
Unlisted Options	2,500,000	\$0.023	15/12/2020
Unlisted Options	2,500,000	\$0.028	15/12/2020
<b>Total</b>	<b>120,980,473</b>		

### Performance Shares & Rights

During the financial year ended 30 June 2018, nil performance shares & rights were granted. All existing performance shares and rights lapsed during the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors.



**Mr Paul Ostergaard**  
Managing Director  
31 August 2018

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement

The Board of Directors ("the Board") is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

This statement outlines the main Corporate Governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition unless otherwise stated.

#### Board of Directors

##### Role of the Board

The Board's primary role is the protection and enhancement of long-term shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the entity including formulating its strategic direction, approving and monitoring capital expenditure, setting remuneration, appointing, removing and creating succession policies for Directors and senior executives, establishing and monitoring the achievement of management's goals and ensuring the integrity of risk management, internal control legal compliance and management information systems. It is also responsible for approving and monitoring financial and other reporting. The Company has a board charter for review on its website and includes the roles, responsibilities, and accountability of the company secretary.

##### Board Processes

The Board has established an Audit Committee and Remuneration Committee. The Board has not established a Nomination Committee because of the limited size, nature and scope of operations of the Company, the Board itself undertakes these responsibilities. The Board has established a framework for the management of the Company including a system of internal control, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds scheduled meetings each year and any extraordinary meetings at such other times as may be necessary to address any specific significant matters that may arise.

The agenda for meetings is prepared in conjunction with the Chairman. Standing items include the financial reports, strategic matters, governance and compliance. Submissions are circulated in advance.

##### Director Education

The entity does not have a formal process to educate new Directors about the nature of the business, current issues, the corporate strategy and the expectations of the Company concerning performance of Directors, these matters are dealt with on an informal basis at present. However, when the Company expands its present business activities a formal process will be initiated to educate new and existing Directors on an ongoing basis.



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### Independent Professional Advice and Access to Company Information

Each Director has the right of access to all relevant Company information and, subject to prior consultation with the Chairman, may seek independent professional advice from a suitably qualified adviser at the Company's expense. The Director must consult with an adviser suitably qualified in the relevant field, and obtain the Chairman's approval of the fee payable for the advice before proceeding with the consultation. A copy of the advice received by the Director is made available to all other members of the Board.

#### Composition of the Board

The names of the Directors of the Company in office at the date of this report are set out in the Directors' Report.

The Board currently has a majority of independent Directors. Directors have been selected to bring specific skills and industry experience to the Company. The Board has an expansive range of relevant industry experience, financial, legal and other skills and expertise to meet its objectives. The current board composition includes three independent Directors and one non-independent Director.

The future composition of the Board is determined using the following principles:

- the Board should comprise not more than ten Directors and not less than three Directors. This number may be increased where it is felt that additional expertise is required in specific areas, or when an outstanding candidate materialises;
- a majority of Directors having extensive knowledge of the Company's industries, and those which do not, have extensive expertise in significant aspects of auditing and financial reporting, or risk management of large companies;
- the Chairman should not also be the Chief Executive Officer;
- the Board should comprise Directors with a broad range of expertise both nationally and internationally;
- Directors appointed by the Board are subject to election by shareholders at the following annual general meeting and thereafter Directors are subject to re-election at least every three years. The tenure for executive Directors is linked to their holding of executive office; and
- the Board assumes the role of Nomination Committee due to the size, nature and scope of the Company.

An independent Director is a Director who is not a member of management (a Non-Executive Director) and who:

- holds less than 5% of the voting shares of the Company and is not an officer of, or otherwise associated, directly or indirectly, with a shareholder of more than 5% of the voting shares of the Company;
- has not within the last three years been employed in an executive capacity by the Company or another Group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal or employee of a material\* professional adviser or a material\* consultant to the Company or another Group member;
- is not a material\* supplier or customer of the Company or another Group member, or an officer of or otherwise associated, directly or indirectly, with a material\* supplier or customer;
- has no material\* contractual relationship with the Company or another Group member other than as a Director of the Company;
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially\* interfere with the Director's ability to act in the best interests of the Company.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

The Board considers Mr Michael Edwards, Mr Giles Everist and Mr Amit Pau to be independent Directors and Mr Paul Ostergaard, as a member of management, to not be an independent Director. Therefore the majority of the Board is considered to be comprised of independent Directors. The Chairman of the Board is Mr Amit Pau.

\* the Board considers 'material', in this context, to be where any Director-related business relationship has represented, or is likely in the future to represent the lesser of at least 10% of the relevant segment's or the Director-related business' revenue. The Board considered the nature of the relevant industries' competition, and the size and nature of each Director-related business relationship, in arriving at this threshold.

The Board maintains a skills matrix which indicates the mix of skills, experience and expertise that are considered necessary at Board level for optimal performance of the Board. The matrix reflects the Board's objective to have an appropriate mix of industry and professional experience including skills such as leadership, governance, strategy, finance, risk, relevant industry experience, HR, policy development, international business and marketing skills. External consultants may be brought in with specialist knowledge to address areas where this is an attribute deficiency in the Board.

#### **Remuneration**

The Board formed a Remuneration Committee despite the limited size and nature of the operations of the Company. The Remuneration Committee reviews remuneration packages and policies applicable to the Directors and employees. The Company has a documented Remuneration Committee charter, approved by the Board. The remuneration committee met twice during the financial year.

The Remuneration Committee is also responsible for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies none of which are applicable to the Company at the present time.

The total remuneration for all non-executive Directors, last voted upon by shareholders, is not to exceed \$310,000 per annum. The current remuneration for each non-executive Director is \$45,000 per annum. Non-executive Directors do not receive bonuses. The Chairman currently receives remuneration of \$54,750 per annum.

#### **Remuneration Report**

The Remuneration Report is set out above and forms part of the Directors' Report for the financial year ended 30 June 2018.

#### **Audit Committee**

The Board formed an Audit Committee despite the limited size and nature of the operations of the Company. The Company has a documented Audit Committee charter, approved by the Board. The external auditors and audit committee met twice during the financial year.

The Chief Financial Officer and Company Secretary has declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 30 June 2018 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

The responsibilities of the Audit Committee, also assumed by the Board include:

- reviewing the annual, half year concise financial reports and other financial information distributed externally. This includes approving new accounting policies to ensure compliance with Australian Accounting Standards and generally accepted accounting principles, and assessing whether the financial information is adequate for shareholder needs;
- assessing corporate risk assessment processes;
- reviewing the Company's policies and procedures for compliance with Australian equivalents to International Financial Reporting Standards;
- assessing whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review;
- providing advice to the Board in respect of whether the provision of the non-audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001;
- assessing the adequacy of the internal control framework and the Company's code of ethical standards;
- organising, reviewing and reporting on any special reviews deemed necessary by the Board;
- reviewing the nomination and performance of the external auditor;
- monitoring the procedures to ensure compliance with Corporations Act 2001 and the ASX Listing Rules and all other regulatory requirements; and
- addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, ASX and financial institutions.

The Audit Committee reviews the performance of the external auditors on an annual basis and normally meets with them during the year to:

- discuss the external audit plans, identifying any significant changes in structure, operations, internal controls or accounting policies likely to impact the financial statements and to review the fees proposed for the audit work to be performed;
- review the half yearly and annual financial report prior to lodgment with the ASX, and any significant adjustments required as a result of the auditor's findings, and to recommend Board approval of these documents, prior to announcement of results;
- review the draft annual and half year financial report, and recommend Board approval of the financial report; and
- review the results and findings of the auditor, the adequacy of accounting and financial controls, and to monitor the implementation of any recommendations made.

#### **Nomination Committee**

The Board assumes the role of the Nomination Committee because of the limited size and nature of the operations of the Company. The Company has a documented Nomination Committee charter, approved by the Board, and it is available on the company's website.

The Board's function as a Nomination Committee is to examine the selection and appointment practices of the Company.

The responsibilities of the Nomination Committee as assumed by the Board are given below.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### *Size and Composition of the Board*

To ensure that the Board has the appropriate blend of directors with the necessary skills, expertise, relevant industry experience and diversity, the Board shall:

- regularly review the size and composition of the Board and consider any appropriate changes;
- identify and assess necessary and desirable Director skills and competencies and provide advice on the skills and competency levels of directors with a view to enhancing the Board;
- make recommendations on the appointment and removal of Directors;
- make recommendations on whether any Directors whose term of office is due to expire should be nominated for re-election;
- regularly review the time required from Non-Executive Directors and whether Non-Executive Directors are meeting that requirement;
- regularly review the Company's Diversity Policy and make decisions as to any strategies required to address Board diversity; and
- regularly review and consider and note the relative proportion of women and men at all levels of the economic group controlled by Company.

#### *Selection Process of New Directors*

The Board shall review the Company's Policy and Procedure for Selection and Appointment of Directors and the Company's Diversity Policy. Such procedure should be transparent to promote investor understanding and confidence in the process.

The Board is empowered to engage external consultants in its search for a new Director, particularly as a means to increase the presentation of candidates which meet the requirements and targets set pursuant to the Company's Diversity Policy.

The initial appointment of a new Director is made by the Board. The new Director will be required to stand for election at the Company's next general meeting.

Each Director and senior executive is required to enter into a written agreement with the Company which sets out the terms of their appointment.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### **Performance Appraisal**

The Board shall:

- develop a process for evaluation of the performance of the Board, Board committees (if any), and when deemed appropriate by the Chair, individual Board members in accordance with the Company's Process for Performance Evaluation;
- implement ways of enhancing the competency levels of Directors;
- consider and articulate the time required by Board members in discharging their duties efficiently;
- undertake continual assessment of Directors as to whether they have devoted sufficient time in fulfilling their duties as Directors;
- develop a process for, and carry out, an evaluation of the performance of the Managing Director and other senior executives in accordance with the Company's Process for Performance Evaluation;
- review and implement the Company's induction program;
- ensure new Directors participate in the induction program; and
- provide all Directors with access to ongoing education relevant to their position in the Company, including education concerning key developments in the Company and in the industry and environment within which it operates.

### Risk Management

#### **Oversight of the Risk Management System**

The Board has implemented a risk management system for assessing, monitoring and managing operational, financial reporting, and compliance risks for the Company. Because of the limited size and scope of the Company's operations, management determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Board assesses the financial reporting risk management and associated compliance and controls on an ongoing basis. The operational and other risk management compliance and controls are also assessed on an ongoing basis. All risk assessments covered the whole financial year and the period up to the signing of the annual financial report for all material operations in the group. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required by the Board to report back (at least annually) on the efficiency and effectiveness of risk management, inter alia, by benchmarking the Company's performance against industry standards. Given the present size of the Company, these assessments are reviewed by the Board as a whole and not through a separate internal audit function.

#### **Risk Profile**

The risk management program is aimed at ensuring risks are identified, assessed and appropriately managed. Major risks for the entity arise from such matters as actions by competitors, government policy changes, information technology security, supplier relationships, occupational health and safety, financial reporting, consumer and industry trends and the purchase, development and use of information systems and communication technology.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

Financial risk exposures arise in the course of the day-to-day operating activities of the entity, largely due to cash flow and interest rate movements. The primary objective of financial exposure management is to reduce the volatility of cash flows and asset values arising from such movements. The cash funds invested by the Company are generally in short term investments with Australian banks.

#### **Risk Management and Compliance and Control**

The Board is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. The Board's policy on internal controls is comprehensive and comprises the Company's internal compliance and control systems, including:

- financial reporting – there is a budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared regularly. The entity reports to shareholders half yearly;
- continuous disclosure – the entity has a policy that all shareholders and investors have equal access to the Company's information and has procedures to ensure that all price sensitive information is disclosed to the ASX in accordance with the continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules;
- a comprehensive process is in place to identify matters that may have a material effect on the price of the Company's securities and notify them to the Board;
- the Company Secretary is responsible for interpreting the Company's policy and where necessary informing the Board;
- the Company Secretary is responsible for all communications with the ASX; and
- investment appraisal – the entity has clearly defined guidelines for capital expenditure. These include detailed appraisal and review procedures, levels of authority and due diligence requirements where businesses are being acquired or divested.

Comprehensive practices have been established to ensure:

- capital expenditure and revenue commitments above a certain size obtain prior Board approval;
- business transactions are properly authorised and executed; and
- financial reporting accuracy and compliance with the financial reporting regulatory framework.

#### **Financial Reporting**

The Chief Financial Officer and Company Secretary has declared, in writing to the Board that the Company's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board.

Monthly actual results are reported against budgets and revised forecasts for the year are prepared regularly.

#### **Assessment of Effectiveness of Risk Management**

The Board ensures compliance of the internal controls and risk management programs by reviewing the effectiveness of the compliance and control systems.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### Ethical Standards

All Directors, executives and employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the entity. The Board reviews the Ethical Standards policy regularly and processes are in place to promote and communicate these policies.

#### Conflict of Interest

Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. The Board has developed procedures to assist Directors to disclose potential conflicts of interest.

Where the Board believes that a significant conflict exists for a Director on a Board matter, the Director concerned is not present at the meeting whilst the item is considered. Details of Director - related entity transactions with the entity are set out in note 23.

#### Code of Conduct

The entity has advised each Director, executive and employee that they must comply with the Ethics Standards policy. The policy covers the following:

- aligning the behaviour of the Board and management with the code of conduct by maintaining appropriate core Company values and objectives;
- fulfilling responsibilities to shareholders by delivering shareholder value;
- usefulness of financial information by maintaining appropriate accounting policies and practices and disclosure;
- employment practices such as occupational health and safety, employment opportunity, the level and structure of remuneration, and conflict resolution;
- responsibilities to the community, such as environmental protection policies, supporting the community activities, sponsorships and donations;
- responsibilities to the individual, such as privacy, use of privileged or confidential information, and conflict resolution;
- compliance with legislation including policies on legal compliance in countries where the legal systems and protocols are significantly lower than Australia's;
- conflicts of interest;
- corporate opportunities such as preventing Directors and key executives from taking advantage of property, information or position for personal gain;
- confidentiality of corporate information;
- fair dealing;
- protection and proper use of Company's assets;
- compliance with laws; and
- reporting of unethical behaviour.



## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### Trading in General Company Securities by Directors and Employees

The key elements of the Securities Trading Policy set out are:

- identification of those restricted from trading – Directors and employees may acquire shares in the Company, but are prohibited from dealing in Company shares or exercising options;
  - during any closed period (that is five days immediately prior to the release of the preliminary announcement of the Company's annual or half year results and one day after the announcement); and
  - whilst in possession of price sensitive information not yet released to the market;
- raising the awareness of legal prohibitions including transactions with colleagues and external advisers;
- requiring details to be provided of intended trading in the Company's shares; and
- requiring details to be provided of the subsequent confirmation of the trade.

The policy also details the insider trading provisions of the Corporations Act 2001 and is reproduced in full on the Company's website and in the Group's announcements provided to the ASX.

#### Communication with Shareholders

The Board provides shareholders with information using a comprehensive Continuous Disclosure policy which includes identifying matters that may have a material effect on the price of the Company's securities, notifying them to the ASX, posting them on the Company's website and issuing media releases.

In summary, the Continuous Disclosure policy operates as follows:

- the Company Secretary is responsible for interpreting the Company's policy and where necessary informing the Board. The Company Secretary is responsible for all communications with the ASX. Such matters are advised to the ASX on the day they are discovered, and all senior executives must follow a continuous disclosure discovery process, which involves monitoring all areas of the entity's internal and external environment;
- the annual financial report is provided to all shareholders on the Company's website via a link to the ASX announcements website (unless a shareholder has specifically requested to receive a physical copy), including relevant information about the operations of the entity during the year, changes in the state of affairs of the entity and details of future developments;
- the half yearly report contains summarised financial information and a review of the operations of the entity during the period. The half year reviewed financial report is lodged with the ASX, and sent to any shareholder who requests it;
- proposed major changes in the entity which may impact on share ownership rights are submitted to a vote of shareholders;
- notices of all meetings of shareholders; and
- the external auditor attends the annual general meetings to answer any questions concerning the conduct of the audit, the preparation and content of the auditor's report, the compliance of accounting policies adopted by the Company and the independence of the auditor in relation to the conduct of the audit.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

All of the above information, including that of the previous three years, is made available on the Company's website via a link to the ASX announcements website immediately upon public release, and available to all shareholders who lodge their contact details with the Company.

Shareholders have the option to receive communications from, and send communications to, the Company and its security registry electronically either through contacting the Company via its website or contacting the security registry directly.

The Board encourages full participation of shareholders at the annual general meeting, to ensure a high level of accountability and identification with the entity's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are requested to vote on the appointment and aggregate remuneration of Directors, the granting of options and shares to Directors, the remuneration report and changes to the constitution. Copies of the constitution are available to any shareholder who requests it.

#### Gender Diversity

The Company has not adopted an express policy specifically addressing achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy but will consider adopting a policy in the future. Furthermore, the Company has not set any objectives for achieving gender diversity. Should a gender diversity policy be considered appropriate for the Company in the future due to increases in size of the organisation, the policy will specifically deal with the objectives for achieving diversity.

The Company's corporate code of conduct provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.

The Company currently has no female board members, one female senior executive and two female employees.

## Directors' Report (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### Corporate Governance Statement (Cont'd)

#### ASX Principals of Good Corporate Governance

The Board has reviewed its current practices in light of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations with 2014 Amendments 3rd edition with a view to making amendments where applicable after considering the Company's size and the resources it has available.

As the Company's activities develop in size, nature and scope, the size of the Board and the implementation of any additional formal corporate governance committees will be given further consideration.

The following table sets out the ASX Corporate Governance Guidelines with which the Company does not comply:

ASX Principle	Reference/comment
Principle 1: Lay solid foundations for management and oversight	
1.5 The Board should establish a diversity policy	The Company has not adopted an express policy specifically addressing achievement of gender diversity. Due to the current limited size of the Board, the Board does not consider it necessary to have a gender diversity policy but will consider adopting a policy in the future. Furthermore, the Company has not set any objectives for achieving gender diversity. Should a gender diversity policy be considered appropriate for the Company in the future due to increases in size of the organisation, the policy will specifically deal with the objectives for achieving diversity. The Company's corporate code of conduct provides a framework for undertaking ethical conduct in employment. Under the corporate code of conduct, the Company will not tolerate any form of discrimination or harassment in the workplace.
Principle 2: Structure the Board to add value	
2.1 The Board should establish a nomination committee	Given the size of the Board there is no formal nomination committee. Acting in its ordinary capacity from time to time as required, the Board carries out the process of determining the need for, screening and appointing new Directors. In view of the size and resources available to the Company, it is not considered that a separate nomination committee would add any substance to this process.
Principle 7: Recognise and manage risk	
7.1-2 The Board should establish an risk committee	The Company does not have a Risk Committee. The Board believes that, with only three Directors on the Board, the Board itself is the appropriate forum to deal with this function. The board continuously reviews and addresses risk facing the Company.

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

As lead auditor of Norwood Systems Limited for the year ended 30 June 2018, 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 audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

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, 31 August 2018

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# Financial Report

For the year ended 30 June 2018

ABN: 15 062 959 540



# Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
Revenue	4	296,608	204,267
Cost of sales		(165,807)	(173,715)
<b>Gross Profit</b>		<b>130,801</b>	<b>30,552</b>
Interest and other revenue		4,455	14,372
Government grant income	4	959,032	1,367,604
Sales and marketing	5	(469,535)	(1,171,342)
Patent, research and development		(112,110)	(151,960)
Information technology infrastructure cost		(290,492)	(444,852)
Employee and director benefits expense	5	(2,418,037)	(2,595,199)
ASX & share registry fees		(126,897)	(66,795)
Share based payment expense	19	(534,955)	(2,409,113)
Consultancy and subcontractor fees		(239,879)	(95,008)
Rent		(102,188)	(93,988)
Finance costs		(22,408)	(877)
Accountancy, audit and legal fees		(270,737)	(232,732)
Other expenses		(153,986)	(152,019)
Travel and entertainment		(216,316)	(287,431)
Administration expenses		(157,812)	(446,839)
Depreciation		(23,159)	(17,732)
<b>Loss before income tax</b>		<b>(4,044,223)</b>	<b>(6,753,359)</b>
Income tax benefit	6	-	-
<b>Loss after tax for the period attributable to the members of Norwood Systems Limited</b>		<b>(4,044,223)</b>	<b>(6,753,359)</b>
Other comprehensive income		-	-
<b>Total comprehensive loss for the period attributable to the members of Norwood Systems Limited</b>		<b>(4,044,223)</b>	<b>(6,753,359)</b>
<b>Loss per share for the year attributable to the members of Norwood Systems Limited</b>			
Basic and diluted loss per share (cents per share) for the year	7	(0.34)	(0.68)

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

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$	2017 \$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	8	1,079,855	1,481,103
Trade and other receivables	9	318,425	221,823
<b>Total Current Assets</b>		<b>1,398,280</b>	<b>1,702,926</b>
<b>Non-Current Assets</b>			
Plant and equipment		149,433	135,155
<b>Total Non-Current Assets</b>		<b>149,433</b>	<b>135,155</b>
<b>TOTAL ASSETS</b>		<b>1,547,713</b>	<b>1,838,081</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables	10	474,939	625,170
Provisions		199,916	144,746
Loan payable	11	378,099	-
Deferred revenue		41,587	78,663
<b>Total Current Liabilities</b>		<b>1,094,541</b>	<b>848,579</b>
<b>Non-Current Liabilities</b>			
Provisions		43,104	68,227
<b>Total Non-Current Liabilities</b>		<b>43,104</b>	<b>68,227</b>
<b>TOTAL LIABILITIES</b>		<b>1,137,645</b>	<b>916,806</b>
<b>NET ASSETS</b>		<b>410,068</b>	<b>921,275</b>
<b>EQUITY</b>			
Issued capital	12	27,193,337	24,223,426
Reserves	14	8,693,074	8,129,969
Accumulated losses	15	(35,476,343)	(31,432,120)
<b>TOTAL EQUITY</b>		<b>410,068</b>	<b>921,275</b>

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 YEAR ENDED 30 JUNE 2018

	Issued Capital \$	Option Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2017	24,223,426	8,129,969	(31,432,120)	921,275
Loss for the period	-	-	(4,044,223)	(4,044,223)
Total other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	-	<b>(4,044,223)</b>	<b>(4,044,223)</b>
<i>Transaction with owners, directly recorded in equity</i>				
Issue of ordinary shares, net of transaction costs	2,969,911	-	-	2,969,911
Share based payment	-	563,105	-	563,105
Total transactions with owners	2,969,911	563,105	-	3,533,016
<b>Balance at 30 June 2018</b>	<b>27,193,337</b>	<b>8,693,074</b>	<b>(35,476,343)</b>	<b>410,068</b>

	Issued Capital \$	Option Reserve \$	Accumulated Losses \$	Total \$
Balance at 1 July 2016	22,258,701	5,720,855	(24,678,761)	3,300,795
Loss for the period	-	-	(6,753,359)	(6,753,359)
Total other comprehensive income	-	-	-	-
<b>Total comprehensive loss for the period</b>	-	-	<b>(6,753,359)</b>	<b>(6,753,359)</b>
<i>Transaction with owners, directly recorded in equity:</i>				
Issue of ordinary shares, net of transaction costs	1,964,725	-	-	1,964,725
Share based payment	-	2,409,114	-	2,409,114
Total transactions with owners	1,964,725	2,409,114	-	4,373,839
<b>Balance at 30 June 2017</b>	<b>24,223,426</b>	<b>8,129,969</b>	<b>(31,432,120)</b>	<b>921,275</b>

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 YEAR ENDED 30 JUNE 2018

	Notes	2018 \$	2017 \$
<b>Cash flows from operating activities</b>			
Receipts from customers		221,728	186,564
Other income		1,535	-
Government grants received		959,032	1,367,604
Payments to suppliers and employees		(4,832,483)	(5,778,463)
Interest received		3,151	12,945
Interest paid		(1,404)	(724)
<b>Net cash flows used in operating activities</b>	<b>17</b>	<b>(3,648,441)</b>	<b>(4,212,074)</b>
<b>Cash flows from investing activities</b>			
Purchase of plant & equipment		(36,344)	(110,313)
Proceeds from loan		356,395	-
<b>Net cash flows provided by/(used in) investing activities</b>		<b>320,051</b>	<b>(110,313)</b>
<b>Cash flows from financing activities</b>			
Proceeds from the issue of shares		3,058,000	2,070,996
Share issue costs		(130,858)	(156,271)
<b>Net cash flows from financing activities</b>		<b>2,927,142</b>	<b>1,914,725</b>
Net decrease in cash and cash equivalents		(401,248)	(2,407,662)
Cash and cash equivalents at the beginning of the year		1,481,103	3,888,765
<b>Cash and cash equivalents at the end of the year</b>	<b>8</b>	<b>1,079,855</b>	<b>1,481,103</b>

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 YEAR ENDED 30 JUNE 2018

## NOTE 1: REPORTING ENTITY

Norwood Systems Limited is a listed public Company incorporated and domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its subsidiaries (together referred to as the “consolidated entity” or “Group”).

A description of the nature of the Company’s operations and its principal activities is included in the Directors’ Report which does not form part of this financial report.

The consolidated financial statements were authorised by the Board of Directors on the date of signing the Directors’ Declaration.

## NOTE 2: BASIS OF PREPARATION

This General Purpose Financial Report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (including Australian Interpretations) and the Corporations Act 2001.

The Financial Statements and Notes of the Company comply with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS).

Compliance with AIFRS ensures that the Financial Statements and Notes comply with International Financial Reporting Standards.

Norwood Systems Limited is a company limited by shares. The financial report is presented in Australian currency. Norwood Systems Limited is a for-profit entity.

### **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 financial statements, the Group incurred a loss of \$4,044,223 and had net cash outflows from operating activities of \$3,648,441. 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 a capital raising activities and the securing of material revenue generating contracts to continue its operational and marketing activities.

Management believe there are sufficient funds to meet the entity’s working capital requirements as at the date of this report. Subsequent to year end the entity received its FY18 R&D rebate of \$869,481.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 2: BASIS OF PREPARATION (Cont'd)

### Going Concern (Cont'd)

The financial statements have been prepared on the basis that the entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and settlement of liabilities in the normal course of business for the following reasons:

- The Company has successfully completed several capital raisings, including:
  - o An over-subscribed placement to institutional and sophisticated investors last financial year to raise \$1,058,000;
  - o A placement to professional and sophisticated investors & fully underwritten Share Purchase Plan last financial year to raise a further \$2,000,000;
- Agreement signed with Thomas Cook Money for the purchase of World-Wi-Fi subscriptions as part of a paid pilot program;
- Partnership with Fon to expand Norwood's World Wi-Fi service footprint;
- Launch of World Secure, launch of World Phone to RAC Travel members and customers and launch of World Voicemail after the reporting period;
- Active cost cutting measures are being undertaken;

The Company 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 Company 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 Company.

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.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 20.

### 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:

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 2: BASIS OF PREPARATION (Cont'd)

### Significant Judgements and Key Assumptions (Cont'd)

#### *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: SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

### (a) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Norwood Systems Limited and its subsidiaries (the Group) as at 30 June 2018 or for any time during the year.

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **(b) Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets not measured at fair value comprise:

- I. loans and receivables with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest method.

All financial liabilities are measured at amortised cost using the effective interest rate method. The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or un-collectability.

### **(c) Goods and Services Tax ('GST')**

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

### **(d) Patents & Development Expense**

The Company expenses all research and development costs as incurred. The amounts incurred in relation to patent development costs and patent applications are expensed until the Company has received formal notification that a patent has been granted. The Company believes expensing patent development and application costs provides the most relevant and reliable information to financial statement users. The Company will only record a development asset when there is certainty that the Company will be able to patent the technology it has created, as demonstrated by the approval of the patent application and as a result expect future economic benefits to flow to the Company.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (d) Patents & Development Expense (cont'd)

Following initial recognition of development expenditure as a development asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete, and the asset is available for use. It is amortised over the period of expected future benefit, which will normally be the useful life of the patent. Amortisation is recorded in other expenses. During the period of development, the asset is tested for impairment annually.

### (e) New Accounting Standards and Interpretations

#### **New and Amended Standards adopted by the Group**

The Group's assessment of the impact of these new or amended Australian Accounting Standards and Interpretations that have come into effect for annual reporting periods beginning on or after 1 January 2018 are set out below.

#### ***AASB 9 Financial Instruments***

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. The standard introduces additional new disclosures. The consolidated entity will adopt this standard, but the impact of its adoption is assessed by the consolidated entity to be insignificant.

#### ***AASB 15 Revenue from Contracts with Customers***

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied.



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 3: SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### (e) New Accounting Standards and Interpretations (Cont'd)

Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgments made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The Group will adopt this standard from 1 July 2018, but the impact of its adoption is assessed by the consolidated entity to be insignificant as majority sales are made in advance and non-complex. This assessment has only been performed for current revenue streams and that projects in the pipeline will be assessed when the details are known.

### **New and Amended Standards not yet adopted by the Group**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory have not been early adopted by the Group for the annual reporting period ended 30 June 2018. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations are set out below.

#### **AASB 16 Leases**

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured as the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019, but the impact of its adoption is yet to be assessed by the consolidated entity.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 4: REVENUE AND OTHER INCOME

	2018	2017
	\$	\$
<b>Revenue</b>		
World Apps revenue	161,134	177,530
Corona Revenue	133,940	24,516
Other revenue – Booking.com	1,534	2,221
<b>Total revenue</b>	<b>296,608</b>	<b>204,267</b>
<b>Government Grants</b>		
Export Market Development Grants	34,940	106,555
Research and Development Grant	924,092	1,261,049
<b>Total government grant income</b>	<b>959,032</b>	<b>1,367,604</b>

Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

### **Interest Revenue**

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

### **World Apps & Corona Revenue**

World Apps and Corona revenue is majority prepaid and subsequently amortised based on usage. Any post-paid revenue is recognised only when the Company has satisfied the relevant performance obligation, being the provision of call connections.

### **Other revenue**

Other revenue is recognised when it is received or when the right to receive payment is established.

### **Government Grants**

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

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 5: LOSS

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

	2018	2017
	\$	\$
<b>Employee and Director Benefits</b>		
Director's fees	144,750	131,872
Employee wages	2,095,361	2,262,623
Superannuation	177,926	200,704
<b>Total employee and director benefits</b>	<b>2,418,037</b>	<b>2,595,199</b>
<b>Sales and Marketing</b>		
Google customer acquisition fee	9,877	84,762
Apple customer acquisition fee	1,599	101,128
Advertising free minutes	10,141	13,825
Sales and marketing consultants	447,918	971,627
<b>Total sales and marketing</b>	<b>469,535</b>	<b>1,171,342</b>

## NOTE 6: INCOME TAX

Major components of income tax expense

	2018	2017
	\$	\$
The prima facie tax payable on profit/(loss) before income tax is reconciled to the income tax expense as follows:		
<b>Accounting loss before income tax</b>	<b>(4,044,223)</b>	<b>(6,753,359)</b>
Prima facie income tax payable on loss before income tax at 27.5%	(1,112,161)	(1,857,174)
Add/(Less) Tax effect of:		
Non-deductible differences	697,015	1,254,502
Research and development grant income	(254,125)	(346,789)
Current year losses not recognised	669,271	949,461
<b>Income tax expense attributable to profit</b>	<b>-</b>	<b>-</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 6: INCOME TAX (Cont'd)

At 30 June 2018, the Group has an unrecognised deferred tax asset of \$8,736,023 (2017: \$7,491,387) in relation to historical losses incurred by the Company. No deferred tax assets have been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

The benefit for tax losses will only be obtained if:

- the Company derives future assessable income in Australia of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- the Company continues to comply with the conditions for deductibility imposed by tax legislation in Australia; and
- there are no changes in tax legislation in Australia which will adversely affect the Company in realising the benefit from the deductions for the losses.

Income tax expense comprises current and deferred tax. Income tax expense is recognised in Consolidated Statement of Profit or Loss and Other Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Norwood Systems Limited and its wholly-owned Australian subsidiary have not formed an income tax consolidated group under the tax consolidation regime.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 7: LOSS PER SHARE

Basic earnings/(loss) per share amounts are calculated by dividing net profit/(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:

	2018	2017
	\$	\$
Loss used in the calculation of basic and diluted loss per share	(4,044,223)	(6,753,359)
Basic loss per share attributable to equity holders	(0.34)	(0.68)
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares outstanding during the year used in calculation of basic and diluted loss per share	1,175,611,809	987,955,743

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.

### I. Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year.

### II. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

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 YEAR ENDED 30 JUNE 2018

## NOTE 8: CASH AND CASH EQUIVALENTS

	2018	2017
	\$	\$
Cash at bank	1,079,855	1,481,103
<b>Total Cash and Cash Equivalents</b>	<b>1,079,855</b>	<b>1,481,103</b>

Cash at bank earns interest at floating rates based on daily bank rates. Refer to note 22 on financial instruments for details on the Group's exposure to risk in respect of its cash balance.

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

## NOTE 9: TRADE AND OTHER RECEIVABLES

	2018	2017
	\$	\$
<b>Current:</b>		
Trade Receivables	23,895	23,023
Other Receivables	149,466	171,230
Prepaid Expenses	145,064	27,570
<b>Total Trade and Other Receivables</b>	<b>318,425</b>	<b>221,823</b>

Trade accounts and other receivables represent the principal amounts due at reporting date less, where applicable, any allowances for doubtful accounts. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there is objective evidence indicating that the debt may not be fully repaid. As at 30 June 2018, nil amounts had been impaired.

Prepaid expenses refer to amounts paid for goods and services in advance, and these amounts are amortised over the period of time to which the service relates. For example, annual ASX Listing fees, insurance and provision of a SDK service.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 10: TRADE AND OTHER PAYABLES

	2018	2017
	\$	\$
<b>Current:</b>		
Trade payables	242,230	387,213
Other creditors and accruals	232,709	237,957
<b>Total Trade and Other Payables</b>	<b>474,939</b>	<b>625,170</b>

Trade payables are non-interest bearing and are normally settled on 30-day terms.

Trade accounts and other payables and accrued liabilities represent the principal amounts outstanding at reporting date plus, where applicable, any accrued interest

## NOTE 11: LOAN PAYABLE

	2018	2017
	\$	\$
<b>Current:</b>		
R&D Loan Facility Payable	397,688	-
Unexpired Interest	(19,589)	-
<b>Total Loan Payable</b>	<b>378,099</b>	<b>-</b>

The Company noted in the December 2017 quarterly report that it had in place an undrawn, approved facility available which allows the Company to receive advance funding on its expected FY2018 R&D rebate. As announced on 19 February 2018, Norwood chose to utilise this facility to receive advance funding on the expected FY2018 R&D rebate for the first six months of FY2018.

### 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 2018
  - Norwood has the option to repay earlier without penalties
- Interest Rate: 15% 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



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 12: ISSUED CAPITAL

	2018	2017
	No. of Shares	No. of Shares
Issued Ordinary Shares – no par value (fully paid)	1,327,430,485	1,100,216,853
<b>Total</b>	<b>1,327,430,485</b>	<b>1,100,216,853</b>

	No.	\$
Nil (30 June 2017: 78,869,761) Class A Performance Shares	-	22,258,701
Dec 2016 – Issue of Shares as consideration for professional services received	2,000,000	50,000
May 2017 – Shares offered under non-renounceable entitlement issue	129,437,277	2,070,996
May 2017 – Cost of share issues	-	(156,271)
<b>Closing balance – 30 June 2017</b>	<b>1,100,216,853</b>	<b>24,223,426</b>
Nov 2017 – Issue of ordinary shares	58,777,777	1,058,000
Nov 2017 – Issue of shares in lieu of cash for services at \$0.022 (note 19 (h))	909,091	20,000
Nov 2017 – Issue of shares in lieu of cash for services at \$0.015 (note 19 (h))	2,000,000	30,000
Nov 2017 – Issue of shares in lieu of cash for services at \$0.028 (note 19 (h))	3,526,666	98,747
Nov 2017 – Cost of share issue	-	(130,978)
Mar 2018 – Shares offered under shares placement	80,000,000	1,000,000
Mar 2018 – Issue of shares as consideration for professional services received (note 19 (h))	2,000,000	25,000
Apr 2018 - Shares offered under shares purchase plan	80,000,000	1,000,000
Apr 2018 – Cost of share issue	-	(130,858)
June 2018 – Consolidation & expiry of performance shares	98	-
<b>Closing balance – 30 June 2018</b>	<b>1,327,430,485</b>	<b>27,193,337</b>

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.

### Loss on Conversion of Debt to Equity

The following shares in Norwood Systems Limited were granted during the financial year ended 30 June 2018:

- 3,526,666 shares in the Company were issued in satisfaction of an outstanding invoice in relation to capital raising fees with a total value \$63,480. The fair value of these shares was \$98,746 based on the issue price of \$0.028. The Group has recognized a loss of \$35,267 in relation to the difference between the invoice amount and the fair value of shares issued to extinguish the liability.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 12: ISSUED CAPITAL (Cont'd)

### Capital Management

When managing capital, the Board's objective is to ensure the Group continues as a going concern as well as to maximise the returns to shareholders and benefits for other stakeholders. The Board also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

The Board is constantly reviewing the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, the Board may issue new shares, return capital to shareholders or sell assets to reduce debt.

The Group was not subject to any externally imposed capital requirements during the year.

## NOTE 13: PERFORMANCE SHARES AND RIGHTS

### PERFORMANCE SHARES

	2018	2017
	\$	\$
Nil (30 June 2017: 78,869,761) Class A Performance Shares	-	-
Nil (30 June 2017: 78,869,761) Class B Performance Shares	-	-
	<b>No.</b>	<b>\$</b>
<b>Opening balance – 1 July 2016</b>	157,739,522	-
<b>Closing balance – 30 June 2017</b>	157,739,522	-
Movement during the period	(157,739,522)	-
<b>Closing balance – 30 June 2018</b>	-	-

### ***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 was 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 was 8 June 2018.

Class A and Class B Performance Shares have now lapsed.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 13: PERFORMANCE SHARES AND RIGHTS (Cont'd)

### PERFORMANCE RIGHTS

	2018	2017
	\$	\$
Nil (30 June 2017: 3,927,774) Class A Performance Rights	-	-
Nil (30 June 2017: 3,927,774) Class B Performance Rights	-	-
	<b>No.</b>	<b>\$</b>
<b>Opening balance – 1 July 2016</b>	7,855,548	-
<b>Closing balance – 30 June 2017</b>	7,855,548	-
Movement during the period	(7,855,548)	-
<b>Closing balance – 30 June 2018</b>	-	-

### *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 was 8 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 was 13 June 2018.

Class A and Class B Performance Rights have now lapsed.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 14: SHARE BASED PAYMENT RESERVE

	2018	2017
	No. of Options	No. of Options
<b>Issued Options</b>	<b>154,313,806</b>	<b>96,374,485</b>
	<b>No.</b>	<b>\$</b>
Opening balance – 1 July 2016	102,374,485	5,720,855
Oct 2016 – Option expiry	(1,000,000)	-
Nov 2016 – Option expiry	(5,000,000)	-
Share Based Payment – Further vesting value of options	-	2,409,114
<b>Closing balance – 30 June 2017</b>	<b>96,374,485</b>	<b>8,129,969</b>
July 2017 – Placement options	33,333,333	-
Nov 2017 – Attaching options to placement	29,388,889	-
Nov 2017 - Supplier options	3,000,000	28,150
Dec 2017 - Director options	9,187,500	111,849
June 2018 – Option expiry	(16,970,401)	-
Share Based Payment – Further vesting value of options	-	423,106
<b>Closing balance – 30 June 2018</b>	<b>154,313,806</b>	<b>8,693,074</b>

For further details in regards to movements in options share based payments during the year ended 30 June 2018, refer to Note 19.

### 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. The value of the amount disclosed during the period 2018 reflects the value of options issued by Norwood Systems Limited post reverse acquisition.

## NOTE 15: ACCUMULATED LOSSES

	2018	2017
	\$	\$
<b>Accumulated Losses</b>	<b>(35,476,343)</b>	<b>(31,432,120)</b>
Opening balance	(31,432,120)	(24,678,761)
Net loss for the financial year	(4,044,223)	(6,753,359)
<b>Total</b>	<b>(35,476,343)</b>	<b>(31,432,120)</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 16: GROUP ENTITIES

### Parent Entity

While the accounting parent of the Group is Norwood Systems (Aust) Pty Ltd, the legal and ultimate parent of the Group is Norwood Systems Limited. The consolidated financial statements include the financial statements of Norwood Systems (Aust) Pty Ltd as accounting parent and the subsidiaries listed in the following table.

Name	Country of Incorporation	% Equity Interest 2018	% Equity Interest 2017
Norwood Systems Ltd	Australia	100%	100%
Norwood Systems (UK) Pty Ltd	Australia	100%	100%
Norwood Incorporated	USA	100%	100%
Eburnean Resources Pty Ltd	Australia	0%	100%
Vema Resources Pty Ltd	Australia	100%	100%
Monteray Mining Burkina SARL	Burkina Faso	100%	100%

## NOTE 17: OPERATING CASH FLOW INFORMATION

	2018 \$	2017 \$
<b>Reconciliation of cash flow from operations with loss after income tax</b>		
Loss for the year	(4,044,223)	(6,753,359)
Non-cash items:		
Shares issued as consideration for services provided	45,000	50,000
Loss on issue of equity	35,267	-
Finance cost – R&D expense	21,005	-
Share based payments	534,955	2,409,114
Depreciation	23,159	17,732
<b>Changes in Assets and Liabilities</b>		
(Increase) / Decrease in Trade and Other Receivables	(96,602)	39,849
Increase / (Decrease) in Trade and Other Payables	(197,048)	14,589
Increase / (Decrease) in Provisions	30,047	10,001
<b>Cash flows used in operations</b>	<b>(3,648,441)</b>	<b>(4,212,074)</b>

During the financial year ended 30 June 2018, there were nil non-cash investing and financing activities (2017: nil).

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 18: AUDITOR'S REMUNERATION

	2018	2017
	\$	\$
The auditor of Norwood Systems Limited is BDO Audit (WA) Pty Ltd		
Amounts received or due and receivable by BDO for:		
<b>Audit and review services</b>	40,800	36,450
<b>Remuneration review</b>	9,750	-
	50,550	-

## NOTE 19: SHARE BASED PAYMENTS

Share based payments made during the financial year ended 30 June 2018 are summarised below.

### (a) Recognised Share Based Payment Expense

	2018	2017
	\$	\$
Expense arising from equity settled share-based payment transactions	534,955	2,409,113

### (b) Options Granted During the Year

The Company issued Tranches K, L, M and N options during the financial year ended 30 June 2018 as per below.

(i) Options vest on their respective vesting dates with the following conditions:

Tranche	Class of Options	Issue Date	Exercise Price	Expiry Date	Vesting Date	Disposal Restriction
K	32,388,889 Placement Options	22 Nov 2017	\$0.035	1 year from date of issue	Immediately on issue	None
L	4,187,500 Non-Executive Director Options	15 Dec 2017	\$0.000	2 years from date of issue	15 December 2018	None
M	2,500,000 Managing Director Options	15 Dec 2017	\$0.023	3 years from date of issue	Immediately on issue	None
N	2,500,000 Managing Director Options	15 Dec 2017	\$0.028	3 years from date of issue	Immediately on issue	None

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of the options granted were incorporated in the measurement of fair value.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 19: SHARE BASED PAYMENTS (Cont'd)

### (c) Summary of Options Granted

Tranche	Grant Date	Exercise Price	Expiry	Held at 30 June 2018
A	27 Nov 2015	\$0.198	27 Nov 2020	9,500,000
A	27 Nov 2015	\$0.297	27 Nov 2020	9,500,000
C	27 Nov 2015	\$0.173	27 Nov 2018	6,000,000
D	27 Nov 2015	\$0.135	27 Nov 2018	10,000,000
E	27 Nov 2015	\$0.020	27 Nov 2018	25,336,111
F	27 Nov 2015	\$0.020	27 Nov 2018	10,667,973
H	29 Dec 2015	\$0.107	29 Dec 2018	2,000,000
J	2 Aug 2016	\$0.057	2 Aug 2021	6,400,000
K	22 Nov 2017	\$0.035	22 Nov 2018	32,388,889
L	15 Dec 2017	\$0.000	15 Dec 2019	4,187,500
M	15 Dec 2017	\$0.023	15 Dec 2020	2,500,000
N	15 Dec 2017	\$0.028	15 Dec 2020	2,500,000
				<b>154,313,809</b>

	Consolidated		Consolidated	
	2018	WAEP	2017	WAEP
Outstanding at the beginning of the year	96,374,485	\$0.10	102,374,485	\$0.15
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Issued during the year	41,576,389	\$0.03	-	-
Expired during the year	-	-	(6,000,000)	(\$0.28)
<b>Outstanding at the end of the year</b>	<b>154,313,806</b>	<b>\$0.07</b>	<b>96,374,485</b>	<b>\$0.10</b>

The 30 June 2018 balance is represented by the following:

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:



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 19: SHARE BASED PAYMENTS (CON'T)

Tranche	Dividend yield	Expected volatility	Risk-free interest rate	Expected life of options (years)	Option exercise price	Share price at grant date
K	-	110%	1.50%	1	\$0.035	\$0.027
L	-	110%	1.50%	2	\$0.000	\$0.020
M	-	110%	1.50%	3	\$0.023	\$0.020
N	-	110%	1.50%	3	\$0.028	\$0.020

### **(e) Weighted Average Remaining Contractual Life**

The weighted average remaining contractual life of options outstanding at 30 June 2018 is 1.40 years (2017: 1.82 years).

### **(f) Range of Exercise Prices and Weighted Average Share Price at the Date of Exercise**

The range of exercise prices for options outstanding at the end of the year was \$Nil - \$0.40 (2017: \$0.02 - \$0.40). There were no options exercised in the current or prior year.

### **(g) Weighted Average Fair Value**

The weighted average fair value of options granted during the current year was \$0 (2017: \$0).

### **(h) Shares issued for consideration of services**

During the financial year, the following shares were issued to an advisor in consideration for services in relation to corporate advisory during the year:

Share Based Payment	Number of shares	\$ Value
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.022	909,091	20,000
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.015	2,000,000	30,000
Nov 2017 - Issue of shares in lieu of cash payment for services at \$0.028	3,526,666	98,747
Mar 2018 - Issue of Shares as consideration for professional services received	2,000,000	25,000

The fair value of the shares granted is based on the market rate valuation of the services rendered.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 19: SHARE BASED PAYMENTS (CON'T)

### 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.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 20: PARENT ENTITY INFORMATION

	2018	2017
	\$	\$
<b>Assets</b>		
Current assets	866,754	1,278,634
Non-current assets	-	-
<b>Total Assets</b>	<b>866,754</b>	<b>1,278,634</b>
<b>Liabilities</b>		
Current liabilities	177,440	151,922
Non-current liabilities	-	-
<b>Total Liabilities</b>	<b>177,440</b>	<b>151,922</b>
<b>Net Assets</b>	<b>689,314</b>	<b>1,126,712</b>
<b>Equity</b>		
Issued capital	38,422,146	35,452,236
Reserves	10,708,179	10,145,076
Accumulated losses	(48,441,011)	(44,470,600)
<b>Total Equity</b>	<b>689,314</b>	<b>1,126,712</b>
Loss of the parent entity	(31,077,711) <sup>(1)</sup>	(22,052,744) <sup>(1)</sup>
Total comprehensive loss of the parent entity	(31,077,711) <sup>(1)</sup>	(22,052,744) <sup>(1)</sup>

<sup>(1)</sup> Loss includes impairment of intercompany loan (\$17,542,157) and impairment of investment in subsidiaries (\$12,832,683).

The contingent liabilities of the Company are the same as the contingent liabilities of the Group as disclosed at note 25.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 21: 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.

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. This includes start-up operations which are yet to earn revenues.

Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments have been identified based on the information provided to the chief operating decision makers – being the executive management team. The group aggregates two or more operating segments when they have similar economic characteristics, and the segments are similar in the nature of the minerals targeted. Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 21: SEGMENT INFORMATION (Cont'd)

	Voice Telecommunication Services		Corporate		Total	
	Consolidated 2018	Consolidated 2017	Consolidated 2018	Consolidated 2017	Consolidated 2018	Consolidated 2017
<b>Segment income</b>						
Sales revenue	296,608	204,267	-	-	296,608	204,267
Government grant income	959,032	-	-	1,367,604	959,032	1,367,604
Interest received & other income	-	13,876	4,456	496	4,456	14,372
<b>Total income</b>	<b>1,255,640</b>	<b>218,143</b>	<b>4,456</b>	<b>1,368,100</b>	<b>1,260,096</b>	<b>1,586,243</b>
<b>Segment expenses</b>						
Cost of sales	(165,807)	(166,343)	-	-	(165,807)	(166,343)
Operating expenses	(2,774,145)	(3,110,156)	(1,806,253)	(2,509,361)	(4,580,398)	(5,679,619)
ASX and share registry fees	-	-	-	(126,897)	-	(66,795)
Share based payment expenses	-	-	(534,955)	(2,409,113)	(534,955)	(2,409,113)
<b>Loss before depreciation</b>	<b>(1,684,312)</b>	<b>(3,058,356)</b>	<b>(2,336,753)</b>	<b>(3,677,271)</b>	<b>(4,021,064)</b>	<b>(6,735,627)</b>
Depreciation	(23,159)	(17,732)	-	-	(23,159)	(17,732)
<b>Loss before income tax</b>	<b>(1,707,471)</b>	<b>(3,076,088)</b>	<b>(2,336,753)</b>	<b>(3,677,271)</b>	<b>(4,044,223)</b>	<b>(6,753,359)</b>
<b>Segment assets and liabilities</b>						
Cash	241,499	216,801	838,356	1,264,302	1,079,855	1,481,103
Trade and other receivables	290,027	192,327	28,399	29,496	318,425	221,823
Plant and equipment	149,433	135,155	-	-	149,433	135,155
Trade and other creditors	(636,424)	(458,083)	161,485	(167,087)	(474,939)	(625,170)
Loan payable	(378,099)	-	-	-	(378,099)	-
Provisions	(170,114)	(127,784)	(72,906)	(85,189)	(243,020)	(212,973)
Deferred revenue	(41,587)	(78,663)	-	-	(41,587)	(78,663)
	<b>(545,266)</b>	<b>(120,247)</b>	<b>955,334</b>	<b>1,041,522</b>	<b>410,068</b>	<b>921,275</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: FINANCIAL INSTRUMENTS

### **(a) Financial Risk Management Objectives and Policies**

The Group's principal financial instruments comprise cash, receivables, and payables.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified.

The Group manages its exposure to key financial risks, including interest rate, credit and liquidity risks in accordance with the Group's risk management policy. The primary objective of the policy is to reduce the volatility of cash flows and asset values arising from such movements.

The Group uses different methods to measure and manage the different types of risks to which it is exposed. These include monitoring the levels of exposure to interest rate risk, ageing analysis and monitoring of credit allowances to manage credit risk and the use of future cash flow forecasts to monitor liquidity risk.

### **(b) Significant Accounting Policies**

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, with respect to each class of financial asset, financial liability and equity instrument are disclosed in Note 3 to the financial statements.

### **(c) Categorisation of Financial Instruments**

Details of each category in accordance with Australian Accounting Standard AASB 139 Financial Instruments: Recognition and Measurement, are disclosed either on the face of the Statement of Financial Position or in the notes.

### **(d) Credit Risk**

#### *i. Exposure to Credit Risk*

The carrying amount of the Group's financial assets represents the maximum credit exposure. The Group's maximum exposure to credit risk at the reporting date was:

	Consolidated 2018 \$	Consolidated 2017 \$
<b>Financial Assets - Current</b>		
Cash and cash equivalents	1,079,855	1,481,103
Trade and other receivables	318,425	221,823
<b>Total Financial Assets</b>	<b>1,398,280</b>	<b>1,702,926</b>

As at 30 June 2018, there were no financial assets neither past due nor impaired (2017: nil).

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: FINANCIAL INSTRUMENTS (Cont'd)

### ii. Interest Rate Risk

The Group's maximum exposure to interest rates at the reporting date was:

	Range of Effective Interest Rate	Carrying Amount	Interest Rate Exposure			Total
			Variable Interest Rate	Non-Interest Bearing	Fixed Interest Rate	
<b>Consolidated 2018</b>	(%)	\$	\$	\$	\$	\$
<b>Financial Assets - Current</b>						
Cash and cash equivalents	0 – 3	1,079,855	1,079,855	-	-	1,079,855
<b>Consolidated 2017</b>						
<b>Financial Assets - Current</b>						
Cash and cash equivalents	0 – 3	1,481,103	1,481,103	-	-	1,481,103

### iii. Trade and Other Receivables

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date was:

	Carrying Amount	Not past Due and not impaired	Credit Risk Exposure			Impaired Financial Assets
			1-3 Months	3 Months to 1 Year	1 Year to 5 Years	
<b>Consolidated 2018</b>	\$	\$	\$	\$	\$	\$
<b>Financial Assets - Current</b>						
Trade and other receivables	318,425	318,425	-	-	-	-
<b>Consolidated 2017</b>						
<b>Financial Assets - Current</b>						
Trade and other receivables	221,823	221,823	-	-	-	-



# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: FINANCIAL INSTRUMENTS (Cont'd)

### (e) Liquidity Risk

#### *i. Exposure to Liquidity Risk*

The carrying amount of the Group's financial liabilities represents the maximum liquidity risk. The Group's maximum exposure to liquidity risk at the reporting date was:

	2018	2017
	\$	\$
<b>Financial Liabilities - Current</b>		
Trade and other payables	474,939	625,170
<b>Total Financial Liabilities</b>	<b>474,939</b>	<b>625,170</b>

#### *ii. Contractual Maturity Risk*

The following table discloses the contractual maturity analysis at the reporting date:

2018					
Financial Instrument	6-12 months	1 year or less	Over 1 to 5 years	More than 5 years	Total
	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash	1,079,855	-	-	-	1,079,855
Other debtors	318,425	-	-	-	318,425
<b>Total financial assets</b>	<b>1,398,280</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,398,280</b>
<b>Financial Liabilities</b>					
Trade payables	242,230	-	-	-	242,230
Other payables	232,709	-	-	-	232,709
<b>Total financial liabilities</b>	<b>474,939</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>474,939</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: FINANCIAL INSTRUMENTS (Cont'd)

### (e) Liquidity Risk (Cont'd)

2017					
Financial Instrument	6-12 months	1 year or less	Over 1 to 5 years	More than 5 years	Total
	\$	\$	\$	\$	\$
<b>Financial Assets</b>					
Cash	1,481,103	-	-	-	1,481,103
Other debtors	221,823	-	-	-	221,823
<b>Total financial assets</b>	<b>1,702,926</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,702,926</b>
<b>Financial Liabilities</b>					
Trade payables	387,213	-	-	-	387,213
Other payables	237,957	-	-	-	237,957
<b>Total financial liabilities</b>	<b>625,170</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>625,170</b>

### (f) Market Risk

#### *i. Currency Risk*

The Group's primary operations were in Australia during the years ended 30 June 2018 and 30 June 2017 and therefore had minimal exposure to foreign exchange risk.

#### *ii. Interest Rate Risk*

The Group's only exposure to interest rate risk is Cash as set out in Note 22(f)(iv). The group is not exposed to debt interest rate risk in 2018 as the R&D facility incurs a fixed interest rate (2017: no exposure as borrowings bear interest at a fixed rate).

#### *iii. Other Price Risk*

There are no other price risks of which the Group is aware.

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 22: FINANCIAL INSTRUMENTS (Cont'd)

### iv. Sensitivity Disclosure Analysis

Taking into account past performance, future expectations and economic forecasts, the Group believes the following movements are 'reasonably possible' over the next 12 months (base rates are sourced from the Reserve Bank of Australia).

It is considered that 100 basis points is a 'reasonably possible' estimate of potential variations in the interest rate.

The following table discloses the impact on net operating result and equity for each category of financial instrument held by the Group at year end as presented to key management personnel, if changes in the relevant risk occur.

	Carrying Amount	Interest Rate Risk			
		+1% Profit	+1% Equity	-1% Profit	-1% Equity
<b>2018</b>	\$	\$	\$	\$	\$
<b>Financial Assets - Current</b>					
Cash and cash equivalents	1,079,855	11,000	11,000	(11,000)	(11,000)
<b>2017</b>					
<b>Financial Assets - Current</b>					
Cash and cash equivalents	1,481,103	15,000	15,000	(15,000)	(15,000)

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 23: RELATED PARTY TRANSACTIONS

### (a) Key Management Personnel Compensation

Information on remuneration of all Directors and key management personnel is contained in the Remuneration Report within the Directors' Report.

The aggregated compensation paid to Directors and key management personnel of the Group is as follows:

	2018	2017
	\$	\$
Short-term employee benefits	942,728	889,188
Post-employment benefits	75,757	75,752
Share Based Payment	492,621	1,811,932
<b>Total</b>	<b>1,511,106</b>	<b>2,776,872</b>

### (b) 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 2015. 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 year are as follows:

	2018	2017
	\$	\$
Opening balance receivable by the Group	40,469	40,469
Loan proceeds received	-	-
<b>Total receivable due to the Group</b>	<b>40,469</b>	<b>40,469</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 23: RELATED PARTY TRANSACTIONS

### (b) Loans with Key Management Personnel (Cont'd)

#### *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:

	2018	2017
	\$	\$
Opening balance	58,603	58,603
Loans advanced	-	-
<b>Total receivable due to the Group</b>	<b>58,603</b>	<b>58,603</b>

#### *Mr Paul Ostergaard – Managing Director*

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

	2018	2017
	\$	\$
Opening balance	-	-
Loans advanced	881	881
<b>Total receivable due to the Group</b>	<b>881</b>	<b>881</b>

# Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 30 JUNE 2018

## NOTE 24: EVENTS OCCURRING AFTER THE REPORTING PERIOD

Date	Details
<b>3 July 2018</b>	<b>World Wi-Fi Pilot with Leading Leisure Travel Group</b> Agreement signed with Thomas Cook Money for the purchase of World Wi-Fi Subscription as part of a paid pilot program.
<b>24 July 2018</b>	<b>Appointment of Two New Senior Sales and Marketing Executives</b> Mr Noel Northcott and Mr Aidan Montague appointed as Senior Executives to focus on sales execution, marketing strategy and lead generation.
<b>30 July 2018</b>	<b>Norwood Launches World Voicemail</b> Advanced visual voicemail app and its associated cloud service offered as “bolt-on” visual voicemail Value-Added Service for Telcos and Consumers.
<b>31 July 2018</b>	<b>Delivery of Advanced AI-driven Mobile Sentiment Analytics</b> The Company has released AI-driven Mobile Analytics features in the new versions of its leading products World Phone and Wold Messenger.
<b>30 August 2018</b>	<b>Norwood Receives R&amp;D Tax Offset and Retires Funding Arrangement</b> The Company advised the receipt of \$869,481 in respect of its FY18 R&D rebate from the ATO. The funds have been applied to the retirement of the R&D tax offset funding agreement noted in the December 2017 Quarterly Activity Report, with approximately \$482,000 in surplus cash to be applied for working capital purposes.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may 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 25: 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 \$81,599. 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 30 June 2018.

## Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2018

In the Directors' opinion:

- a. the accompanying financial statements set out on pages 52 to 87 and the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including:
  - i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations, changes in equity and cash flows, for the year ended on that date; and
  - ii. complying with Australian Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements;
- b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

This declaration is made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2018.

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

On behalf of the Directors



**Mr Paul Ostefgaard**

Managing Director

31 August 2018

## INDEPENDENT AUDITOR'S REPORT

To the members of Norwood Systems Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Norwood Systems Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Material uncertainty related to going concern

We draw attention to Note 2 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 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 opinion is not modified in respect of this matter.

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## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

### Revenue Recognition

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<p>The group recognises revenue generated from retail customers via in-App purchases relating to World Credit and Line Rental and revenue from corporate customers through CORONA contracts.</p> <p>Revenue recognition has been assessed as a key audit matter due to the risk that revenue may be recognised prematurely (in the incorrect accounting period) as the revenue to be earned under contract may be received in advance of providing services.</p> <p>Refer to Note 4 in the financial statements for disclosure on revenue recognition.</p>	<p>Our procedures on revenue recognition included the following:</p> <ul style="list-style-type: none"><li>• Assessing the revenue recognition policy for compliance with Australian Accounting Standards</li><li>• Performing analytical procedures to understand movements and trends in revenue for comparisons against expectations</li><li>• Agreeing, for a sample of revenue transactions, the amounts recorded by the Group to invoices and supporting documentation to check whether the revenue and related costs were recorded accurately and within the correct accounting period</li></ul>

### Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the Financial Report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

#### **Report on the Remuneration Report**

##### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 24 to 36 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Norwood Systems Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

##### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

**BDO Audit (WA) Pty Ltd**

BDO



Phillip Murdoch  
Director

Perth, 31 August 2018

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## ASX Additional Information

FOR THE YEAR ENDED 30 JUNE 2018

Additional information required by the ASX Limited Listing Rules not disclosed elsewhere in this Annual Financial Report is set out below.

### SHAREHOLDINGS

The issued capital of the Company at 20 August 2018 is 1,327,430,485 ordinary fully paid shares. All ordinary shares carry one vote per share. The Company has used the cash it had at the time of admission to the Official List of the ASX in accordance with its stated business objectives.

### TOP 20 SHAREHOLDERS AS AT 20 AUGUST 2018 (UNCONSOLIDATED HOLDINGS)

		No of Shares Held	% Held
1	PAUL FREDERICK NORWOOD OSTERGAARD < OSTERGAARD FAMILY A/C>	157,298,683	11.85
2	BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	68,457,084	5.16
3	MR YOGI PTY <MWI SUPERFUND A/C>	33,775,508	2.54
4	OCEAN BROADBAND LTD	26,474,796	1.99
5	CITICORP NOMINEES PTY LIMITED	22,833,582	1.72
6	MR MICHAEL SAFAR	22,000,000	1.66
7	MR SIMON SALIBA	21,000,000	1.58
8	NETWEALTH INVESTMENTS LIMITED <WRAP SERVICES A/C>	18,502,792	1.39
9	A&J ANDONOVSKI INVESTMENTS PTY LTD <ANDONOVSKI GROUP FAMILY A/C>	16,916,505	1.27
10	MR BENCHUN ZHOU	14,292,091	1.08
11	T & N ARGYRIDES INVESTMENTS PTY LTD	13,000,000	0.98
12	MR MARK WILLIAM ILIFF	12,995,055	0.98
13	MR CHRISTOPHER RICHARD HILL <THE CRH A/C>	12,537,500	0.94
14	MR RYAN GRAHAM HOLLINGSWORTH	12,190,000	0.92
15	DOMAEVO PTY LTD <THE JCS A/C NO 2>	12,000,000	0.90
16	TERSA PTY LTD <T & L HOLLINGSWORTH S/F A/C>	11,111,110	0.84
17	MR HEMANT KUMAR VANMALI <SUNI-JAY A/C>	10,893,300	0.82
18	MR RYAN GRAHAM HOLLINGSWORTH	10,632,816	0.80
19	MR ADAM ROBERT KEATS <KEATS FAMILY SUPER FUND A/C>	10,000,000	0.75
20	MR JASON EDWARD SHEPPARD	9,743,485	0.73
	<b>Total</b>	<b>516,664,309</b>	<b>38.92</b>
	<b>Balance of register</b>	<b>810,766,176</b>	<b>61.08</b>
	<b>Grand total</b>	<b>1,327,430,485</b>	<b>100.00</b>

## ASX Additional Information (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### RANGE & LOCATION OF SHAREHOLDERS

Shares Range	No. of Holders	No. of Shares
1 - 1,000	629	58,209
1,001 – 5,000	91	332,273
5,001 – 10,000	196	1,622,612
10,001 – 100,000	1,214	54,881,576
100,001 and over	1,008	1,270,535,815
<b>Total</b>	<b>3,138</b>	<b>1,327,430,485</b>
<b>Holdings less than a marketable parcel</b>	<b>1,972</b>	<b>41,667,240</b>

Shareholders by Location	No. of Holders	No. of Shares
Australian holders	3,039	1,270,816,394
Overseas holders	99	56,614,091
<b>Total</b>	<b>3,138</b>	<b>1,327,430,485</b>

### VOTING RIGHTS

The holders of ordinary shares are entitled to one vote per share at meetings of the Company.

### RESTRICTED SECURITIES

There are no restricted securities.

### SUBSTANTIAL SHAREHOLDER NOTICES RECEIVED AS AT 20 AUGUST 2018

	No. of Shares Held	% Held
1 PAUL FREDERICK NORWOOD OSTERGAARD < OSTERGAARD FAMILY A/C>	201,723,481	15.20%

## ASX Additional Information (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### OPTION HOLDINGS

The Company has the following classes of unlisted options on issue at 20 August 2018 as detailed below. Options do not carry any rights to vote.

Class	Terms	No. of Options
NOROP4	Exercisable at \$0.198 expiring on or before 27 November 2020	9,500,000
NOROP5	Exercisable at \$0.297 expiring on or before 27 November 2020	9,500,000
NOROP6	Exercisable at \$0.173 expiring on or before 27 November 2018	6,000,000
NOROP7	Exercisable at \$0.135 expiring on or before 27 November 2020	10,000,000
NOROP8	Exercisable at \$0.02 expiring on or before 27 November 2018	25,336,111
NOROP9	Exercisable at \$0.02 expiring on or before 27 November 2018	10,667,973
NOROP10	Exercisable at \$0.107 expiring on or before 29 December 2018	2,000,000
NOROP11	Exercisable at \$0.057 expiring on or before 2 August 2021	6,400,000
NOROP13	Exercisable at \$0.00 expiring on or before 15 December 2019	4,187,500
NOROP14	Exercisable at \$0.035 expiring on or before 22 November 2018	32,388,889
NOROP15	Exercisable at \$0.023 expiring on or before 15 December 2020	2,500,000
NOROP16	Exercisable at \$0.028 expiring on or before 15 December 2020	2,500,000
		<b>120,980,473</b>

## ASX Additional Information (Cont'd)

FOR THE YEAR ENDED 30 JUNE 2018

### OPTION HOLDINGS (Cont'd)

The following Option holders hold more than 20% of a particular class of the Company's Unlisted Options.

Holder	Unlisted Options					
	NOROP4	NOROP5	NOROP6	NOROP7	NOROP8	NOROP9
Mr Paul Ostergaard	9,500,000 100%	9,500,000 100%	-	-	-	-
Mr Amit Pau	-	-	3,000,000 50%	-	-	-
Mr Michael Edwards	-	-	3,000,000 50%	-	-	-
Mr Steven Tot	-	-	-	5,000,000 50%	-	-
Mr Nick Horton	-	-	-	5,000,000 50%	-	-
Zaq Investments Pty Ltd <The Wilson Family A/C>	-	-	-	-	18,336,111 72.37%	-
Andrew Mason	-	-	-	-	-	9,167,973 85.94%
<b>Total</b>	9,500,000	9,500,000	6,000,000	10,000,000	18,336,111	9,167,973
<b>Balance of register</b>	-	-	-	-	7,000,000	15,000,000
<b>Total Number of Holders</b>	1	1	2	2	3	3

Holder	Unlisted Options					
	NOROP10	NOROP11	NOROP13	NOROP14	NOROP15	NOROP16
Mrs Sally Marjorie Everist	2,000,000 100%	-	1,250,000 30%	-	-	-
Mr Amit Pau	-	-	1,687,000 40%	-	-	-
Mr Michael Edwards	-	-	1,250,000 30%	-	-	-
Mr Paul Ostergaard	-	-	-	-	2,500,000 100%	2,500,000 100%
<b>Total</b>	2,000,000	-	4,187,500	-	2,500,000	2,500,000
<b>Balance of register</b>	-	6,400,000	-	32,388,889	-	-
<b>Total Number of Holders</b>	1	19	3	26	1	1

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