

**Etherstack plc
and controlled entities**

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2018

ARBN 156 640 532

Previous Corresponding Period: Half
Year ended on 30 June 2017

Results for Announcement to the market				USD\$'000
Revenue from ordinary activities	Increased	12.7%	to	1,931
Loss from ordinary activities after tax attributable to members	decreased	31.2%	to	(841)
Net loss attributable to members	decreased	31.2%	to	(841)

Dividends

There were no dividends declared or paid during the period (30 June 2017: nil) and the Directors do not recommend any dividend be paid.

	30 June 2018	30 June 2017
	US cents	US cents
Net tangible assets/(liabilities) per share		
Net tangible assets/(liabilities) per share	(4.0)	(3.6)

Explanation of Results

Please refer to the Review of operations and financial results within the Directors' Report for an explanation of the results.

The interim financial report for the half year ended 30 June 2018 dated 29 August 2018, forms part of and should be read in conjunction with this Half Year Report (Appendix 4D). The unaudited condensed consolidated financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.



David Deacon, Director
29 August 2018

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2018



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Etherstack is a wireless technology company specialising in licensing mission critical radio technologies to equipment manufacturers and network operators around the globe. With a particular focus in the public safety, defence, utilities, transportation and resource sectors, Etherstack's technology can be found in radio communications equipment used in the most demanding situations. The company has R&D facilities in London, Sydney, New York and Yokohama.

DIRECTORS' REPORT

The directors present the condensed consolidated interim financial report of Etherstack plc ("the Company" or "Etherstack") and its controlled entities (together referred to as "the Group") for the half year ended 30 June 2018. All amounts are in thousands of USD, unless otherwise specified.

Directors

The names of the Company's directors in office during the half year and until the date of this report are set out below. Directors were in office for the entire period unless otherwise stated:

- Peter Stephens Non-Executive Chairman
- David Deacon Executive Director and Chief Executive Officer
- Paul Barnes Non-Executive Director
- Scott W Minehane Non-Executive Director

2018 First half Highlights

- 12.7% Increase in revenue to \$1,931 compared to first half of 2017. Driven by:
 - Strong project and product revenue growth of 40% during first half of 2018 compared to corresponding period of 2017
 - 32% growth in recurring long term support revenue streams relative to first half of 2017
- Loss after tax reduced from \$1,222 in the first half of 2017 to \$841 an improvement of \$381 or 31%
- On 19 June the company announced two new defence sector wins totalling \$2.1 million which will be substantially recognised in the second half of 2018
- First IVX sales made during the first half of 2018 and there is a healthy pipeline of opportunities for this new product
- Operating cash flow inflow of \$865 in the first half compared to an outflow of \$888 in first half of 2017

Principal activities

The principal activities of the Group throughout the period were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company.

Etherstack has a substantial intellectual property portfolio that generates a diverse range of revenue from multiple technology areas and clients, and a mix of mature, new and emerging product lines. Etherstack derives revenues from:

- Mission critical radio network products; these products may carry Etherstack brands or be sold as "white labelled" equipment (where customer uses its own brand)
- Specialised communications equipment
- Technology licences and royalties
- System solution sales, where Etherstack sells its products and software and then provides ongoing support systems
- Customisation and Integration services; and
- Ongoing Support services.

DIRECTORS' REPORT Continued

Etherstack seeks to differentiate our Network offerings by:

- Focussing on specific industry sectors where our technology has a track record of uninterrupted performance
- Providing local support in North America, Asia and Europe with global back up
- Ongoing investment in developing new capabilities

Etherstack seeks to differentiate our Specialised Radio Product offerings by:

- Identifying and supplying market “gaps” where our products offer a competitive edge in terms of features, functions or price
- Leveraging small company agility to be first to market with innovative products – the Go Box and IVX products are current examples of this differentiation strategy.

Review of operations and financial results

Revenues for the half year are \$1,931 which is an increase of \$217 or 12.7% from the prior half year for which revenue was \$1,714. Loss after tax reduced from \$1,222 in the first half of 2017 to \$841 an improvement of \$381 or 31%.

The revenue increase is due to:

- Improved level of project activity in the first half of 2018 resulting in project revenues of \$1,245 compared to \$889 for the first half of 2017, a 40% increase.
- Improved support revenues: Support revenue for first half of 2018 grew 32% to \$544 compared to \$412 revenue for the first half of 2017. This is attributable to growth in Etherstack's installed support client base in particular from the network projects commissioned in 2017. Growth in support revenues is particularly important as these revenues are not subject to the same volatility or timing risk as project revenues.
- Decreased royalty revenues: royalty revenues for first half of 2018 are \$89 compared to \$322 for the first half of 2017 representing a 72% decrease. The decrease is due to reduced sales achieved by licensed manufacturers and an up front royalty recognised in 2017 which will deliver more royalties when the licenced product is first sold but no royalty in first half of 2018.

From a cost perspective, the results for the half year show a changed revenue mix and continued careful cost control:

- Costs of sales comprises labour and material costs; these costs have decreased from \$863 to \$806 despite increased revenues. This decrease reflects a change in the revenue mix
- Administrative costs have decreased from \$2,241 to \$2,029 a decrease of \$212 representing 10%. The decrease is mainly related to a reduction in the amortisation of intangible assets.
- Finance costs during the current reporting period were \$160 comprising an interest charge and other finance costs of \$175 which have been offset by a credit generated from a favourable embedded derivative revaluation at the end of first half 2018.

DIRECTORS' REPORT Continued

In addition to the revenue changes and cost reductions outlined above, the financial results are also impacted by:

- The amount of costs capitalised as development costs were \$517 compared with \$419 in the first half of 2017. This reflects a slightly increased cost base and a changed mix of revenue generating activities and intellectual property development activities.
- An income tax benefit of \$82 (2017 \$230) was earned mainly due to income tax refunds arising from research and development incentives the Group is able to access.

EBITDA

EBITDA has increased to positive \$131 from negative \$351 in the corresponding half year of 2017

	30 June 2018	30 June 2017
Statutory profit/(loss) after tax	(841)	(1,222)
After tax effect of:		
Depreciation	17	13
Amortisation	877	1,088
Interest expense	98	113
Embedded derivatives revaluation and amortisation (net)	62	(113)
Income tax	(82)	(230)
EBITDA	<u>131</u>	<u>(351)</u>

Operating cash flows

Importantly, Operating cash flows have improved from an outflow of \$888 in 2017 to an inflow of \$865. This has enabled repayments of borrowings to be made in the half of \$277.

Future developments

As noted in previous Directors' reports, the Group is in process of continuing to take actions to reduce cash pressures created by revenue volatility by reducing dependence on large projects by:

- First IVX sales made during the first half of 2018 and there is a healthy pipeline of opportunities
- Increasing recurring revenues from support contracts and royalty arrangements. As noted above, support streams have increased in the half year although royalties reduced.

Rounding of amounts

Amounts in the Directors Report and the accompanying financial report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar, unless otherwise expressly stated.

Signed in accordance with a resolution of the directors



David Deacon, Director
29 August 2018

Independent Auditor's Review Report

To the members of Etherstack plc

We have reviewed the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018, which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cashflows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our review work has been undertaken so that we might state to the company's members those matters we are required to state to them in an independent review and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities for the half-year financial report

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with International Accounting Standard 34, Interim Financial Reporting.

As disclosed in Note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Our responsibility

Our responsibility is to express a conclusion on the condensed consolidated financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independent Auditor's Review Report - continued

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2, which comply with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Material uncertainty in relation to Going Concern

In forming our review conclusion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in Note 2 to the financial statements concerning the group's ability to continue as a going concern without further funding. These conditions, along with the other matters explained in Note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

Grant Thornton UK LLP

Grant Thornton UK LLP, Cambridge

29 August 2018

**Consolidated Statement of Comprehensive Income
For the period ended 30 June 2018**

	Half year ended 30 June 2018 USD \$'000 (unaudited)	Half year ended 30 June 2017 USD \$'000 (unaudited)
Revenue	1,931	1,714
Cost of sales	(806)	(863)
	<hr/>	<hr/>
Gross Profit	1,125	851
Other administrative expenses	(2,029)	(2,241)
Net foreign exchange gains/(loss)	141	(62)
	<hr/>	<hr/>
<i>Group operating loss from continuing operations</i>	(763)	(1,452)
Finance costs	(160)	-
	<hr/>	<hr/>
<i>Loss before taxation</i>	(923)	(1,452)
Income tax benefit	82	230
	<hr/>	<hr/>
<i>Loss after taxation for the period attributable to the equity holders of the parent</i>	(841)	(1,222)
<i>Other comprehensive income/(loss)</i>		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(44)	50
	<hr/>	<hr/>
Total comprehensive loss for the period attributable to the equity holders of the parent	<hr/> <hr/> (885)	<hr/> <hr/> (1,172)
 Loss per share attributable to the equity holders of the parent		
Basic loss for the period (in US cents)	<hr/> <hr/> (0.75)	<hr/> <hr/> (1.09)
Diluted loss for the period (in US cents)	<hr/> <hr/> (0.75)	<hr/> <hr/> (1.09)

The results above relate to continuing operations.

**Consolidated Statement of Financial Position
As at 30 June 2018**

	Note	30 June 2018 USD \$'000 (unaudited)	31 December 2017 USD \$'000 (audited)
NON-CURRENT ASSETS			
Intangible assets	5	3,591	3,967
Property, plant and equipment		55	64
Trade receivables and other assets		-	196
		<u>3,646</u>	<u>4,227</u>
CURRENT ASSETS			
Inventories		290	146
Trade and other receivables		1,573	2,551
Cash and bank balances		51	41
		<u>1,914</u>	<u>2,738</u>
TOTAL ASSETS		<u>5,560</u>	<u>6,965</u>
CURRENT LIABILITIES			
Trade and other payables		3,520	3,787
Deferred revenue		786	838
Current tax liabilities		55	52
Borrowings		1,307	1,633
Convertible notes		52	124
		<u>5,720</u>	<u>6,434</u>
NON-CURRENT LIABILITIES			
Deferred revenue		132	116
Deferred tax liabilities		83	103
Employee entitlements		78	27
Convertible notes		393	246
		<u>686</u>	<u>492</u>
TOTAL LIABILITIES		<u>6,406</u>	<u>6,926</u>
NET (LIABILITIES) / ASSETS		<u>(846)</u>	<u>39</u>
EQUITY			
Share capital		645	645
Share premium account		7,742	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,652)	(2,608)
Accumulated losses		(10,687)	(9,846)
TOTAL EQUITY		<u>(846)</u>	<u>39</u>

Consolidated Statement of Changes in Equity
For the period ended 30 June 2018

	Share Capital USD \$'000	Share Premium Account USD \$'000	Merger Reserve USD \$'000	Share Based Payment Reserve USD \$'000	Foreign Currency Translation Reserve USD \$'000	Retained Earnings USD \$'000	Total Equity USD \$'000
<i>For the half-year ended 30 June 2017</i>							
Balance at 1 January 2017	645	7,742	3,497	609	(2,461)	(8,300)	1,732
Loss for the period	-	-	-	-	-	(1,222)	(1,222)
Other comprehensive income for the period	-	-	-	-	50	-	50
Total comprehensive income for the period	-	-	-	-	50	(1,222)	(1,172)
Balance at 30 June 2018 (unaudited)	645	7,742	3,497	609	(2,411)	(9,522)	560
<i>For the half-year ended 30 June 2018</i>							
Balance at 1 January 2018	645	7,742	3,497	609	(2,608)	(9,846)	39
Loss for the period	-	-	-	-	-	(841)	(841)
Other comprehensive income for the period	-	-	-	-	(44)	-	(44)
Total comprehensive income for the period	-	-	-	-	(44)	(841)	(885)
Balance at 30 June 2018 (unaudited)	645	7,742	3,497	609	(2,652)	(10,687)	(846)

**Consolidated Statement of Cash Flows
For the period ended 30 June 2018**

	Note	Six months 30 June 2018 USD \$'000 (unaudited)	Six months 30 June 2017 USD \$'000 (unaudited)
Operating loss		(841)	(1,222)
Adjustments for:			
Depreciation of property, plant and equipment		17	13
Amortisation of intangible assets	5	877	1,088
Amortisation of finance costs		76	22
Revaluation of embedded derivative		(14)	(135)
Net unrealised foreign exchange (gains) losses		(143)	54
Interest expense		98	-
Operating cash flows before movements in working capital		70	(180)
(Increase)/Decrease in inventories		(153)	69
Decrease in receivables		1,149	268
Decrease in payables		(81)	(860)
Decrease in income tax payable		(95)	(60)
Decrease in deferred revenue		(2)	(125)
Interest paid		(23)	-
Net cash flow generated/(used in) from operating Activities		865	(888)
Investing activities			
Purchases of intangible assets and development costs	5	(517)	(419)
Purchases of property, plant and equipment		(11)	-
Net cash flow used in investing activities		(528)	(419)
Financing activities			
Loan advances		-	675
Proceeds of convertible note issue		-	573
Repayment of borrowings		(277)	(130)
Interest paid		(48)	-
Net cash from financing activities		(325)	1,118
Net increase/(decrease) in cash and cash equivalents		12	(189)
Cash and cash equivalents at 1 January		41	236
Effect of foreign exchange rate changes		(2)	29
Cash and cash equivalents at end of period		51	76

Notes to the Condensed Consolidated Financial Statements

1. General information

Etherstack plc is a public company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The registered office is 30-31 Friar Street Reading, Berkshire RG1 1DX, UK.

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2018 comprises the Company and its subsidiaries (together referred to as 'the Group'). The principal activities of the Group throughout the period were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company. These financial statements are presented in US\$ because the Group operates in international markets and the US\$ provides the most comparable currency for peer companies. All amounts are in USD and \$000 unless otherwise indicated.

2. Basis of preparation

The condensed consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2017.

This condensed consolidated interim financial report does not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards, (IFRS) as adopted by the European Union and should be read in conjunction with the consolidated financial statements at 31 December 2017. The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 29 August 2018.

2.1. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. For the six months to 30 June 2018, the Group incurred a loss after tax of \$841 which includes non-cash amortisation of \$877, the Group generated cash inflows from Operating activities of \$865 and at 30 June 2018 the Group has net liabilities of \$846.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets set out in the business plan. Revenue increased in the first half of 2018 compared to the first half of 2017 and operating cash flow in the first half were an inflow of \$865 compared to an outflow of \$888 in first half of 2017. The Directors have considered the strength of the sales pipeline in particular contracts in progress, royalty and support revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event the revenue targets were not met then this would place a short term strain on resources and there is a reasonable likelihood that further funding will be required. The Directors note the Company has a record of successful fund raising to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders to provide additional capital should it be required.

The Directors acknowledge that there can be no certainty these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and the directors have therefore concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

Notes to the Condensed Consolidated Financial Statements

2.2. Financial reporting period

The interim financial information for the period from 1 January 2018 to 30 June 2018 is unaudited. In the opinion of the Directors, the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The accounts incorporate comparative figures for the interim period 1 January 2017 to 30 June 2017 and the audited financial year to 31 December 2017. The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006.

The comparatives for the full year ended 31 December 2017 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, but included a reference to going concern issues, which the auditors drew attention to, by way of an explanatory paragraph, without modifying their report.

3. Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2017.

4. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2017, except for the adoption of new standards as set out below.

(a) New standards adopted by the Group

Two new standards became applicable for the current reporting period:

- IFRS 9 Financial Instruments, and
- IFRS 15 Revenue from Contracts with Customers.

IFRS 9 relates to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. As the Group's existing accounting policies are consistent with IFRS 9 insofar as the standard applies to the Group, the standard did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

IFRS15 'Revenue from contracts with customers' has been adopted for the financial year commencing 1 January 2018. Under IAS18 revenue was recognised on product sales when the risk and rewards of ownership passed to the customer and from services based on when the service is provided. Under IFRS15 the Company has evaluated contracts with customers to determine the distinct performance obligations and assess whether the supply of product is distinct from support services. Whilst the new financial reporting standard represents significance new guidance, the implementation of this guidance has not had a significant impact on the timing or amount of revenue recognised in the half year.

(b) Impact of standards issued but not yet applied by the Group

IFRS 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of \$423. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future

Notes to the Condensed Consolidated Financial Statements

payments and how this will affect the Group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

5. Intangible assets

Intangible assets comprise costs incurred on the development of specific products that meet the criteria set out in IAS 38 Intangible Assets. The amortisation period for development costs incurred on the Group's intellectual property developments is over the useful life estimate of 3 to 6 years or over the estimated delivery model, whichever is shorter. Amortisation does not take place until the asset is fully completed. Engineering software is amortised over its expected useful life of 5 years.

	Capitalisation of development costs USD \$'000	Engineering software USD \$'000	Acquired Customer relationship USD \$'000	Total USD \$'000
Cost				
At 1 January 2017	17,649	697	797	19,143
Additions	419	-	-	419
Exchange differences	-	-	82	82
At 30 June 2017	<u>18,068</u>	<u>697</u>	<u>879</u>	<u>19,644</u>
At 1 January 2018	18,406	697	893	19,996
Additions	473	44	-	517
Disposal	-	(313)	-	(313)
Exchange differences	-	-	(47)	(47)
At 30 June 2018	<u>18,879</u>	<u>428</u>	<u>846</u>	<u>20,153</u>
Accumulated amortisation				
At 1 January 2017	12,955	618	478	14,051
Charge for the period	1,014	21	53	1,088
Exchange differences	-	-	(72)	(72)
At 30 June 2017	<u>13,969</u>	<u>639</u>	<u>459</u>	<u>15,067</u>
At 1 January 2018	14,856	653	520	16,029
Charge for the period	810	14	53	877
Disposal	-	(313)	-	(313)
Exchange differences	-	-	(31)	(31)
At 30 June 2018	<u>15,666</u>	<u>354</u>	<u>542</u>	<u>16,562</u>
Carrying amount				
At 30 June 2018	<u>3,213</u>	<u>74</u>	<u>304</u>	<u>3,591</u>
At 30 June 2017	<u>4,099</u>	<u>58</u>	<u>420</u>	<u>4,577</u>

Notes to the Condensed Consolidated Financial Statements

6. Convertible notes

	30 June 2018 USD \$'000	31 December 2017 USD \$'000
Amortised cost as at 1 January	318	-
Issued in the period	-	184
Interest costs	28	27
Amortisation of finance costs	76	98
Effect of foreign exchange	(14)	9
	<hr/>	<hr/>
Amortised cost at end of period	408	318
Embedded derivative as at 1 January	52	-
Issued in the period	-	423
Fair value adjustment as at 30 June	(14)	(371)
Effect of foreign exchange	(1)	-
	<hr/>	<hr/>
Embedded derivative at end of period	37	52
	<hr/>	<hr/>
Convertible notes	445	370
	<hr/> <hr/>	<hr/> <hr/>
Disclosed as:		
Current liabilities	52	124
Non-current liabilities	393	246
	<hr/>	<hr/>
Convertible notes	445	370
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2018 there were 745,161 convertible notes on issue. The Convertible Notes shall convert into ordinary fully paid shares in the capital of Etherstack plc at a conversion price of AUD\$0.25. The Notes are Convertible at the note holders' option at any time prior to maturity on 31 December 2019 and bear interest at 5% until the end of 2017 and 9% for 2018 and 2019.

Fair Value

The conversion rights attached to the convertible notes represent an embedded derivative and is the only financial liability measured at fair value. This financial liability as at 30 June 2018 is \$37 (30 June 2017: \$275). Derivative financial instruments are valued using internal models. The fair values are determined using option pricing models (Black Scholes), which use various inputs including current market prices for underlying instruments, time to expiry, current rates of return and volatility of underlying instruments. Prices are sourced from quoted market prices. Such instruments are classified within Level 3 valuation technique.

For all other financial assets and liabilities the fair value is not materially different to book value.

Notes to the Condensed Consolidated Financial Statements

7. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in these financial statements.

David Deacon is a director of the company. During the half year:

- Net advances of \$7 were made to the company being the deferral of expenses.
- Interest accrued in the period is nil.

At 30 June 2018, \$203 remains owing to David Deacon. The loan amount due being \$203 (31 December 2017 \$204) represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Paul Barnes is a director of the company. During the half year:

- Interest of \$2 was accrued for the half year and \$58 repayments were made.
- Loans of \$22 were advanced by the deferral of salary payments and expenses.

At 30 June 2018, USD \$241 (31 December 2017 \$278) is owing to Paul Barnes. The loan of \$24 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being \$217 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Peter Stephens is a director of the company. During the half year:

- Interest of \$42 (30 June 2017 \$19) was accrued for the half year and \$87 repayments were made.
- Loans of \$20 (30 June 2017 \$21) were advanced by the deferral of salary payments and expenses.
- During the period, interest of \$12 was accrued on Convertible notes held.

At 30 June 2018, \$1,427 (31 December 2017 \$1,464) is owing to Peter Stephens. The loan of \$1,053 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being \$374 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Directors' Declaration

In the opinion of the Directors:

- (a) The financial statements and notes set out on pages 7 to 15:
 - (i) comply with Accounting Standard IAS 34 Interim Financial Reporting
 - (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the six months ended on that date; and
- (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.

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



David Deacon
Director

29 August 2018

Corporate Information

Company Registration No. 7951056

ARBN 156 640 532

Directors

Peter Stephens (Non-Executive Chairman)
David Deacon (Executive Director and Chief Executive Officer)
Paul Barnes FCCA (Non-Executive Director)
Scott W. Minehane (Non-Executive Director)

Company Secretaries

Paul Barnes FCCA (United Kingdom)
David Carter (Australia)

United Kingdom Registered Office

30-31 Friar Street
Reading Berkshire RG1 1DX
United Kingdom

Australian Registered Office

93 A Shepherd Street
Chippendale, NSW, 2008
Australia

Auditor

Grant Thornton UK LLP
Statutory Auditor
Cambridge, United Kingdom

Stock Exchange Listing

Australian Securities Exchange
(Code: ESK)

Share Registrars

Computershare Investor Services Pty Limited

452 Johnston Street
Abbotsford, VIC, 3067
Australia

Computershare Investor Services plc

The Pavilions, Bridgwater Road
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United Kingdom

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