

24 August 2020

ASX Announcement

ETHERSTACK PLC [ASX:ESK] ("Etherstack" or the "Company")

Results for the half year 30 June 2020

Etherstack plc, the developer, manufacturer and licensee of mission critical radio technologies across the globe, is pleased to announce results for the half year ended 30 June 2020.

All amounts are in USD'000.

Results Highlights

-  **Revenue Growth:** revenue is \$2,405 up 40% on the prior corresponding period ("pcp")
-  **Strong Positive Operating Cashflow:** the Company generated \$1,354 net cash from operating activities (\$919 for the pcp)
-  **Strong EBITDA result:** EBITDA for the half year is \$829 (loss of \$66 for the pcp)
-  **Underlying profit after tax for the period is \$99** (2019 loss of \$874). This result excludes a \$2,383 **Non cash** Finance charge.
-  **Non Cash Finance charge:** as a result of the sharp increase in the Company share price on 30 June 2020 the market value of the convertible note liability increased requiring the Company to recognise a **Non Cash** finance charge of \$2,383. The conversion of the convertible notes on 30 June 2020 and 1 July 2020 results in an increase in issued capital of \$3,592. Importantly, the 2 conversion transactions reduce debt and increase net assets by \$1,209. This item is further detailed in the Directors Report and in Note 6 to the financial statements.
-  **Strategic Wins:**
 - Etherstack entered into a strategic multi-year Global Teaming Agreement with consumer electronics giant, Samsung, to deliver next generation Mission Critical Push To Talk (MCPTT) over LTE solutions.
 - The Company has also won a material deal to supply digital radio network equipment to a resources sector customer in Western Australia.

Authorised for release by David Carter

Enquiries

Etherstack
David Carter, Chief Financial Officer
T: +61 2 8399 7500
www.etherstack.com

Walbrook Investor Relations
Mr. Ben Knowles
T: +61 426 277 760
ben.knowles@walbrookir.com.au

English Registered Company No. 7951056 | ARBN 156 640 532

London (GMT)
P: +44 207 734 0200
info.eu@etherstack.com

Yokohama (GMT+9)
P: +81 45 342 9050
info.jp@etherstack.com

New York (GMT-5)
P: +1 917 661 4110
info.na@etherstack.com

About Etherstack plc (ASX:ESK):

Etherstack is a wireless technology company specialising in developing, manufacturing and licensing mission critical radio technologies for wireless 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 and solutions 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.



English Registered Company No. 7951056 | ARBN 156 640 532

London (GMT)

P: +44 207 734 0200

info.eu@etherstack.com

Yokohama (GMT +9)

P: +81 45 342 9050

info.jp@etherstack.com

New York (GMT-5)

P: +1 917 661 4110

info.na@etherstack.com

**Etherstack plc
and controlled entities**

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2020

ARBN 156 640 532

**Previous Corresponding Period: Half
Year ended on 30 June 2019**

Results for Announcement to the market				USD\$'000
Revenue from ordinary activities	Increased	40.0%	to	2,405
EBITDA ¹	Increased	NA	to	829
Underlying profit/(loss) after tax ²	Increased	NA	to	99
Loss from ordinary activities after tax attributable to members ³	Increased	158.4%	to	(2,284)
Net loss attributable to members ³	Increased	158.4%	to	(2,284)
<p>Notes 1&2: The terms EBITDA and Underlying profit/(loss) after tax, are non-IFRS measures used by management of the company to assess the operating performance of the business. The non-IFRS measures are not subject to audit or review.</p> <p>Notes 3: The net loss shown arises from a Non-cash Finance charge of \$2,383 arising on the conversion of convertible notes into equity as a result of IFRS accounting rules and is further explained within the Directors' Report.</p>				

Dividends

There were no dividends declared or paid during the period (30 June 2019:\$nil) and the Directors do not recommend any dividend be paid.

	30 June 2020	30 June 2019
Net tangible assets/(liabilities) per share	US cents	US cents
Net tangible assets/(liabilities) per share	(3.6)	(4.0)

Explanation of Results

A detailed review and analysis of operations and financial results is set out within the Directors' Report. The interim financial report for the half year ended 30 June 2020 dated 21 August 2020, 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
21 August 2020

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2020



CONTENTS

Directors' Report	2-7
Independent Auditor's Review Report	8-9
Consolidated Statement of Comprehensive Income	10
Consolidated Statement of Financial Position	11
Consolidated Statement of Changes in Equity	12
Consolidated Statement of Cash Flows	13
Notes to the Consolidated Financial Statements	14-18
Directors' Declaration	19
Corporate Information	20

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 2020. 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:

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

2020 First Half Highlights (USD \$'000)

- **Revenue Growth:** revenue for H1 2020, is \$2,405, up 40% on the previous corresponding period (H1 2019), with a broad mix of equipment sales, support, technology licensing and royalty revenues.
- **Strong Positive Operating Cashflow:** the Company generated \$1,354 net cash from operating activities for the half year and finished the half with \$1,480 (~AU\$2.0m) cash on hand.
- **Strong EBITDA result:** EBITDA for the half year is \$829 (loss of \$66 for the half year 30/06/2019).
- **Strategic Wins:** as previously announced in late June 2020, Etherstack entered into a strategic multi-year Global Teaming Agreement with consumer electronics giant, Samsung, to deliver next generation Mission Critical Push To Talk (MCPTT) over LTE solutions to telecommunications carriers and governments across the globe.

The Company has also won a material deal to supply digital radio network equipment to a resources sector customer in Western Australia.

- **Expansion Wins:** the first half saw repeat business for the Company's deployed large digital radio networks as used in the public safety and electric utilities industries, with material network expansion orders as previously announced.
- **Recurring Revenue Growth:** a combination of new and expansion orders continued to drive the Company's recurring revenue growth from long term support revenue. This trend is expected to continue in the second half year of FY2020 and into FY2021 as additional networks and equipment is deployed.
- **Debt Reduction through Convertible Note Conversion:** On 30 June 2020 the Company issued 3,333,333 shares to convert Convertible Notes into fully paid ordinary share capital. On 1 July 2020 the Company issued a further 3,333,334 shares to convert Convertible Notes into fully paid ordinary share capital. By reducing debt, the effect of these conversions is to strengthen the Company's net asset position.
- **Reduced Borrowings:** the Company continued to pay down other debt during the first half of FY2020
- **Underlying profit after tax for the period is \$99** (2019 loss of \$874). This result excludes the \$2,383 **Non cash** Finance charge. This item is further detailed below and in Note 6.
- **1 July 2020 Positive Net Assets:** Underlying profit and debt reduction through Convertible Note conversion resulted in the Company in a positive net asset position of \$680 on 1 July 2020, despite the non-cash Finance charge of \$2,383 on 30 June 2020 as further detailed below and in Note 6.

DIRECTORS' REPORT Continued

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.

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

The directors wish to draw attention to the following items which significantly impact the results for the half year to and the balance sheet as at 30 June 2020. These arise as a consequence of the sharp increase in the Etherstack share price on 30 June 2020 from AUD \$0.12 to an intra-day high of AUD \$2.00 and a closing price of AUD\$1.75.

The net impact as a result of IFRS accounting standards and their application to the share price volatility and conversion of convertible notes saw the Company's net assets decrease sharply on 30 June 2020 only to improve significantly the day following on 1 July 2020, resulting in an overall positive and improved net asset position.

Convertible note accounting and conversion into ordinary shares

While there are no changes to Etherstack IFRS-based accounting policies there is a significant increase in the amounts recognised under these policies as a consequence of the sharp increase in the share price on 30 June 2020.

- The initial impact is a **non cash** Finance charge of \$2,383 and an increase in the convertible note liability of the same amount.

DIRECTORS' REPORT Continued

- On conversion of convertible notes on 30 June 2020, \$1,792 of this liability is extinguished by the issue of shares.
- A second portion of this liability \$1,800 is extinguished on 1 July 2020 by a second conversion of convertible notes and issue of ordinary shares.

The accounting concepts are detailed in Note 6 to the accounts.

The net effect of these transactions on the half year and 2020 year to date is:

	30 June 2020 half year	1 July 2020	Year to date 2020
Non Cash Finance (Charge)/Gain	(2,383)	-	(2,383)
Liability extinguished	1,792	1,800	3,592
Shares issued – number	3,333,333	3,333,334	6,666,667
Share Capital issued	1,792	1,800	3,592
(Decrease)/Increase in Net assets	(591)	1,800	1,209

1 July 2020 summarised balance sheet

The two convertible note conversions have a significant impact on the balance sheet and the directors present below a summarised 1 July 2020 balance sheet which comprises the 30 June balance sheet and the 1 July convertible note conversion.

	30 June 2020	1 July 2020 pro forma
Non Current assets	3,220	3,220
Current assets	2,649	2,649
Total assets	5,869	5,869
Current Liabilities	4,681	4,681
Non Current Liabilities	2,300	508
Net (Liabilities)/Assets	(1,112)	680
Shareholders Funds	(1,112)	680

DIRECTORS' REPORT Continued

EBITDA and Underlying profit/(loss) after tax

The impact of the IFRS-based Convertible Note accounting is significant as shown in the reconciliation of Statutory profit/(loss) after to EBITDA and to Underlying profit/(loss) after tax. For comparative purposes, the **non cash** Finance charge recognised in H1 2019 was \$10.

	30 June 2020	30 June 2019
Statutory profit/(loss) after tax	(2,284)	(884)
After tax effect of:		
Depreciation	73	71
Amortisation	647	778
Interest expense	116	146
Embedded derivatives revaluation and amortisation (net)	2,383	10
Income tax	(106)	(187)
Earnings Before Interest Tax Depreciation and Amortisation (EBITDA)	<u>829</u>	<u>(66)</u>
	30 June 2020	30 June 2019
Statutory profit/(loss) after tax	(2,284)	(884)
Add:		
Embedded derivatives revaluation and amortisation (net)	2,383	10
Underlying profit/(loss) after tax	<u>99</u>	<u>(874)</u>

Revenues (USD\$'000)

Revenues for the half year are \$2,405 which is an increase of \$687 or 40% from the prior half year.

The revenue increase is due to:

- Support revenue for first half of FY2020 grew 20% to \$767 compared to \$639 revenue for the first half of FY2019. This is attributable to growth in Etherstack's installed support client base in particular from the network projects commissioned in 2018 and 2019 and follows 17.5% growth in these revenues in the first half of 2019. Growth in support revenues is particularly important as these revenues are not subject to the same volatility or timing risk as project revenues.
- Increased royalty revenues: royalty revenues for first half of FY2020 are \$162 compared to \$135 for the first half of FY2019 representing a 20% increase. The increase is due to increased sales achieved by licensed manufacturers
- Increased level of project activity in the first half of FY2020 relative to the first half of FY2019 resulting in project revenues of \$1,476 compared to \$944 for the first half of FY2019, a 56% increase. The nature of the Etherstack business means project revenues are driven by a small number of large contracts and can be volatile depending upon project activity within a particular period.

DIRECTORS' REPORT Continued

Cash flows

- **Operating cash flows:** Importantly, operating cash flows have improved from an inflow of \$919 in FY2019 to an inflow of \$1,354 for the first six months of FY2020. This is predominantly a reflection of higher revenues earned in FY2019 collected in 2020.
- **Financing Cashflows:** Strong operating cashflows have enabled repayments of borrowings to be made in the first half of FY2020 \$212 (1st half FY 2019 \$267).
- **Investing cashflows:** The Company has invested a further \$483 (2019 \$618) into our suite of intellectual property assets in developing new assets and enhancing existing assets.

The combination of these cashflows produces an increased cash balance of \$1,480 (~A\$2,000) at 30 June 2020 (30 June 2019 \$24).

Future developments

As announced on 30 June 2020, The Group has entered a global teaming agreement with Samsung Electronics to deliver next generation Mission Critical Push To Talk (MCPTT) over LTE solutions to telecommunications carriers and governments across the globe, utilising Etherstack's digital LMR (Land Mobile Radio) softswitching technologies embedded within Samsung's advanced network solutions.

The Company looks forward to working with Samsung and generating significant revenues from the agreement as Samsung and Etherstack jointly supply technology to Samsung's customers.

In addition, and as noted in previous Directors' reports, the Group is continuing to take actions to improve cash generation and reduce revenue volatility by reducing dependence on large projects by:

- Developing products, especially tactical communications products, which can be sold separately from major network projects; and
- Increasing recurring revenues from support contracts and royalty arrangements.

Covid 19 impacts

Management and the Board of Directors are continuously monitoring the impact of Covid 19 on the business. In general, the impact on our business is expected to be at the lesser end of the range as:

- Alternative arrangements are being made for delivery of projects and to date effective workaround arrangements are in place for all projects in progress. Notwithstanding these current arrangements have been effective and Etherstack has engineers in Australia, North America, Europe and Japan, it is possible that an inability to travel or travel restrictions, will impact our ability and efficiency in the delivery of projects in the future.
- Our engineers and the broader Etherstack workforce already work from home regularly and the nature of the work, being software development, means the majority have transitioned to full time work from home with minimal impact upon productivity.
- Etherstack revenues may be negatively impacted if the Company or our suppliers are unable to procure components for some of our Tactical communications products or lead times become protracted.

DIRECTORS' REPORT Continued

- The impact of Covid 19 is inherently uncertain. As many of our projects are long term infrastructure projects often funded by governments or semi-government entities, with funding agreed, we are not expecting a significant impact on short term revenues although signing of certain new contracts could experience some delays. The outlook over the medium term is less certain however it is important to note that government stimulus spending on infrastructure projects and public safety in general may provide additional opportunities in the medium term.

Notwithstanding the above, a very high degree of caution will be exercised through this uncertain period. Management and the Board of Directors will continue to monitor the impact and take all necessary actions to protect the business and all stakeholders.

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

A handwritten signature in black ink, appearing to read 'David Deacon', followed by a period.

David Deacon, Director
21 August 2020

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 of Etherstack plc for the six months ended 30 June 2020 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's members, as a body, 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'. 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 report 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 and the company's members as a body, for our review work, for this report, or for the conclusion 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.

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.

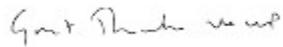
Scope of review

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'. 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 2020 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.



Grant Thornton UK LLP

21 August 2020

**Consolidated Statement of Comprehensive Income
For the period ended 30 June 2020**

	Half year 30 June 2020 USD \$'000 (unaudited)	Half year 30 June 2019 USD \$'000 (unaudited)
Revenue from Contracts with Customers	2,405	1,718
Cost of sales	(1,059)	(737)
Gross Profit	1,346	981
Other income; research & development & government incentives	72	64
Amortisation and impairment of intangible assets	(647)	(778)
Other administrative expenses	(850)	(1,166)
Net foreign exchange gains / (losses)	188	(16)
Total administrative expenses	(1,309)	(1,960)
Group operating profit / (loss) from continuing operations	109	(915)
Embedded derivatives revaluation and amortisation (net)	(2,383)	(10)
Finance expense-borrowing costs	(116)	(146)
Net finance expense	(2,499)	(156)
<i>Loss before taxation</i>	(2,390)	(1,071)
Income tax benefit	106	187
<i>Loss after taxation for the period attributable to the equity holders of the parent</i>	(2,284)	(884)
<i>Other comprehensive loss</i>		
Items that may be classified subsequently to profit and loss :		
Exchange differences on translation of foreign operations	(103)	(5)
Total comprehensive loss for the period attributable to the equity holders of the parent	(2,387)	(889)
	Cents	Cents
Basic loss per share	(2.02)	(0.79)
Diluted loss per share	(2.02)	(0.79)

The results above relate to continuing operations.

**Consolidated Statement of Financial Position
As at 30 June 2020**

	Note	30 June 2020 USD \$'000 (unaudited)	31 December 2019 USD \$'000 (audited)
Current assets			
Cash and bank balances		1,480	931
Trade and other receivables		933	1,870
Inventories		178	155
Right-of-use assets		58	92
		<u>2,649</u>	<u>3,048</u>
Non-current assets			
Property, plant and equipment		37	35
Intangible assets	5	3,126	3,295
Right-of-use assets		57	84
		<u>3,220</u>	<u>3,414</u>
TOTAL ASSETS		<u>5,869</u>	<u>6,462</u>
Current liabilities			
Trade and other payables		2,064	2,467
Current tax liabilities		50	46
Deferred revenue		1,448	1,248
Employee entitlements		247	236
Lease liabilities		80	109
Borrowings		792	1,262
		<u>4,681</u>	<u>5,368</u>
Non-current liabilities			
Deferred tax liability		26	40
Deferred revenue		68	84
Employee entitlements		36	43
Lease liabilities		93	130
Convertible notes		2,077	1,417
		<u>2,300</u>	<u>1,714</u>
TOTAL LIABILITIES		<u>6,981</u>	<u>7,082</u>
NET ASSETS		<u>(1,112)</u>	<u>(620)</u>
Capital and reserves			
Share capital		671	652
Share premium account		9,874	7,998
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,801)	(2,698)
Retained Earnings		(12,962)	(10,678)
TOTAL EQUITY		<u>(1,112)</u>	<u>(620)</u>

**Consolidated Statement of Changes in Equity
For the period ended 30 June 2020**

	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 2019</i>							
Balance at 1 January 2019	645	7,742	3,497	609	(2,733)	(9,807)	(47)
Loss for the period	-	-	-	-	-	(884)	(884)
Other comprehensive (expense) for the period	-	-	-	-	(5)	-	(5)
Total comprehensive (expense) for the period	-	-	-	-	(5)	(884)	(889)
Balance at 30 June 2019 (unaudited)	645	7,742	3,497	609	(2,738)	(10,691)	(936)
<i>For the half-year ended 30 June 2020</i>							
Balance at 1 January 2020	652	7,998	3,497	609	(2,698)	(10,678)	(620)
Conversion of convertible notes to Share Capital	19	1,876	-	-	-	-	1,895
Transactions with owners	19	1,876	-	-	-	-	1,895
Loss for the period	-	-	-	-	-	(2,284)	(2,284)
Other comprehensive (expense) for the period	-	-	-	-	(103)	-	(103)
Total comprehensive (expense) for the period	-	-	-	-	(103)	(2,284)	(2,387)
Balance at 30 June 2020 (unaudited)	671	9,874	3,497	609	(2,801)	(12,962)	(1,112)

**Consolidated Statement of Cash Flows
For the period ended 30 June 2020**

	Note	Six months 30 June 2020 USD \$'000 (unaudited)	Six months 30 June 2019 USD \$'000 (unaudited)
Cash flows from operating activities			
Receipts from customers		3,550	3,264
Payments to suppliers and employees		(2,271)	(2,582)
Interest paid		(19)	-
Government grants and tax incentives		92	-
Income tax refunded		2	237
		1,354	919
Net cash generated from operating activities			
Cash flow from Investing activities			
Additions to intangible assets	5	(483)	(618)
Payments for property, plant and equipment		(19)	(9)
		(502)	(627)
Net cash flow (used in) investing activities			
Cash flows Financing activities			
Principal element of lease payments		(61)	(54)
Repayments of loan		(212)	(267)
Interest paid		(24)	-
		(297)	(321)
Net cash flow (used in) financing activities			
Net increase/(decrease) in cash and cash equivalents			
Effect of foreign exchange rate changes		(6)	2
Cash and cash equivalents at 1 January		931	51
		1,480	24
Cash and cash equivalents at end of period			

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 2020 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 2019.

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 2019. The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 21 August 2020.

2.1 Going concern

Management have considered the trading performance of the Group including underlying trends and expectations, which forms the basis of the Group's current forecasts. The forecasts, which are stress tested for potential future influences and events, in addition to the resources available to the Group and the agreement of the Directors agreeing not to seek repayment of Director loans beyond the ability of the company to make the repayments, lead management to believe that the Group will continue for the foreseeable future for a period of not less than 12 months from date of approval of accounts.

2.2 Financial reporting period

The interim financial information for the period from 1 January 2020 to 30 June 2020 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 2019 to 30 June 2019 and the audited financial year to 31 December 2019. 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 2019 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 2019, except as otherwise noted in Note 6.

Notes to the Condensed Consolidated Financial Statements

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 2019.

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 2019	19,614	431	808	20,853
Additions	619	-	-	619
Exchange differences	-	-	(6)	(6)
	<u>20,233</u>	<u>431</u>	<u>802</u>	<u>21,466</u>
At 30 June 2019	20,233	431	802	21,466
At 1 January 2020	20,819	431	802	22,052
Additions	483	-	-	483
Exchange differences	-	-	(17)	(17)
	<u>21,302</u>	<u>431</u>	<u>785</u>	<u>22,518</u>
At 30 June 2020	21,302	431	785	22,518
Accumulated amortisation				
At 1 January 2019	16,214	368	566	17,148
Charge for the period	716	14	48	778
Exchange differences	-	-	(4)	(4)
	<u>16,930</u>	<u>382</u>	<u>610</u>	<u>17,922</u>
At 30 June 2019	16,930	382	610	17,922
At 1 January 2020	17,704	395	658	18,757
Charge for the period	590	12	45	647
Exchange differences	-	-	(12)	(12)
	<u>18,294</u>	<u>407</u>	<u>691</u>	<u>19,392</u>
At 30 June 2020	18,294	407	691	19,392
Carrying amount				
At 30 June 2020	3,008	24	94	3,126
At 30 June 2019	3,303	49	192	3,544

Notes to the Condensed Consolidated Financial Statements

6. Convertible notes	30 June 2020 USD \$'000	31 December 2019 USD \$'000
Amortised cost as at 1 January	1,097	493
Issued in the period	100	1,040
Interest costs (net of payments)	-	46
Amortisation of finance costs	77	216
Maturity of convertible notes in the period	(575)	(703)
Effect of foreign exchange	(28)	5
	<hr/>	<hr/>
Amortised cost at end of period	671	1,097
Embedded derivative as at 1 January	320	108
Issued in the period	4	358
Fair value adjustment	2,306	(147)
Maturity of convertible notes in the period	(1,217)	-
Effect of foreign exchange	(7)	1
	<hr/>	<hr/>
Embedded derivative at end of period	1,406	320
	<hr/>	<hr/>
Convertible notes	2,077	1,417
	<hr/> <hr/>	<hr/> <hr/>
Disclosed as:		
Current liabilities	-	-
Non-current liabilities	2,077	1,417
	<hr/>	<hr/>
Convertible notes	2,077	1,417
	<hr/> <hr/>	<hr/> <hr/>

At 30 June 2020 there were 3,832,711 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\$0.30. The Notes are Convertible at the note holders' option at any time prior to maturity on 27 August 2021 and bear interest at 8%.

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 2020 is \$1,406 (30 June 2019: \$43). 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.

Significant transactions recognised on 30 June 2020 and 1 July 2020

While there are no changes to Etherstack accounting policies there is a significant increase in the amounts recognised under these policies as a consequence of the sharp increase in the share price on 30 June 2020 from AUD \$0.12 to an intra-day high of AUD \$ 2.00 and a closing price of AUD\$1.75.

Notes to the Condensed Consolidated Financial Statements

International Financial Reporting Standards (“IFRS”) consider convertible notes to be a compound instrument comprising a loan (the host contract) and an option (an embedded derivative) for the noteholder to acquire Etherstack equity. The embedded derivative is recognised as a liability **at its market value** determined using a Black Scholes valuation.

Two key inputs into the Black Scholes valuation are:

- the market price of the shares; In determining the appropriate market price of the shares to be included in the valuation, trading over the period 30 June 2020 to 2 July 2020 has been excluded on this basis that prices in this period were not sustained for more than 3 days and are considered to be an extreme/unusual trading pattern. Accordingly, these prices do not represent an appropriate market price for inclusion in the valuation. A market value of AUD \$0.7665 based on trading after 3 July 2020 is considered the appropriate and orderly market price for use in the valuation; and
- the option strike price of AUD \$0.30.

As a consequence of the sharply increased share price used in the valuation from AUD \$0.255 at 31 December to AUD 0.7665 cents as at 30 June 2020 , the market value of the embedded derivative increased. Under IFRS, Etherstack recognises a finance charge equal to the increase in the valuation of the embedded derivative and as a result Etherstack has recognised a Non-cash finance charge of USD \$2,383 in half year (2019 \$10).

30 June 2020 Convertible note conversion

As 3,333,333 convertible notes were converted into ordinary shares on 30 June 2020, there is a second significant transaction recognised on that date. On conversion of these notes, the liability for the host contract and embedded derivative is extinguished by the issue of 3,333,333 fully paid shares. The value assigned to the issue of shares is equal to the value of the liability for the host contract and embedded derivative. On 30 June 2020, Etherstack extinguished a liability of USD \$1,792 and issued 3,333,333 shares for USD \$1,792.

1 July 2020 Convertible note conversion

Post balance date, a further 3,333,334 convertible notes were converted into ordinary shares. Again, the value assigned to the issue of shares is equal to the value of the liability for the host contract and embedded derivative. On 1 July 2020, Etherstack extinguished a liability of USD \$1,800 and issued 3,333,334 shares for \$1,800.

The net effect of these transactions on the half year and 2020 year to date is:

	30 June 2020 half year	1 July 2020	Year to date 2020
Non Cash Finance (Charge)	(2,383)	-	(2,383)
Liability extinguished	1,792	1,800	3,592
Shares issued – number	3,333,333	3,333,334	6,666,667
Share Capital issued	1,792	1,800	3,592
(Decrease)/Increase in Net assets	(591)	1,800	1,209

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 \$3 were made to the company being the deferral of salary.
- Interest accrued in the period is nil.

At 30 June 2020, \$158 remains owing to David Deacon. The loan amount due being \$158 (31 December 2019 \$187) 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.
- No loans were advanced by the deferral of salary payments and expenses.

At 30 June 2020, USD \$281 (31 December 2019 \$281) is owing to Paul Barnes. The loan of \$22 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being \$259 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 \$36 (30 June 2019 \$48) was accrued for the half year and \$43 repayments were made.
- Loans of \$Nil (30 June 2019 \$17) were advanced by the deferral of salary payments and expenses.

At 30 June 2020, \$956 (31 December 2018 \$1,017) is owing to Peter Stephens. The loan of \$399 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being \$557 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

8. Subsequent Events

As set out in Note 6, on 1 July 2020, 3,333,334 convertible notes were converted into ordinary shares. On this date, Etherstack extinguished a liability of USD \$1,800 and issued 3,333,334 shares for \$1,800.

The Directors report includes a pro-forma balance sheet on 1 July which includes the conversion and share issue. The net asset position shown by the pro forma balance sheet is a positive net asset position of \$680.

Directors' Declaration

In the opinion of the Directors:

- (a) The financial statements and notes set out on pages 10 to 18:
 - (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 2020 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

21 August 2020

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
Bristol BS99 6ZY
United Kingdom

Website

www.etherstack.com