

**Etherstack plc  
and controlled entities**

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2017

ARBN 156 640 532

Previous Corresponding Period: Half  
Year ended on 30 June 2016

Results for Announcement to the market				USD\$'000
Revenue from ordinary activities	Increased	10.7%	to	1,714
Loss from ordinary activities after tax attributable to members	decreased	40.6%	to	(1,222)
Net loss attributable to members	decreased	40.6%	to	(1,222)

**Dividends**

There were no dividends declared or paid during the period (30 June 2016: nil) and the Directors do not recommend any dividend be paid.

	30 June 2017 US cents	30 June 2016 US cents
Net tangible assets/(liabilities) per share		
Net tangible assets/(liabilities) per share	(3.60)	(9.09)

**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 2017 dated 29 August 2017, 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 2017

## **Etherstack plc** AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2017



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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 2017. 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

### 2017 First half Highlights

- 10.7% Increase in revenue compared to first half of 2016
- Loss after tax reduced from \$2,060 in the first half of 2016 to \$1,222 an improvement of \$838 or 40%
- Consolidation of recurring revenues through 36% growth in recurring royalty revenues and 17% increase in long term support revenue streams relative to first half of 2016
- Strong pipeline of project and product revenue for the remainder of 2017. Etherstack expects 2017 revenue of USD \$6.4 million to \$6.9 million and further revenue growth in 2018 when revenues of \$7.3 to \$7.8 are forecast
- The half year to 30 June 2017 has been the best half yet for Go Box sales and business development for the new tactical communications product lines
- New IVX "PTT over Satcom" product to be launched at DSEI 2017 in London and field trials with lead prospects underway. First sales expected before end of financial year

### 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 \$1,714 which is an increase of \$166 or 10.7% from the prior half year for which revenue was \$1,548. Loss after tax reduced from \$2,060 in the first half of 2016 to \$1,222 an improvement of \$838 or 40%.

The revenue increase is due to:

- Improved royalty revenues: royalty revenues for first half of 2017 are \$322 compared to \$237 for the first half of 2016 representing a 36% increase. The increase is primarily driven by a marked jump in unit sales of an emerging digital radio standard known as DMR, for which Etherstack licenses technology to wireless equipment manufacturers for use in their products.
- Improved support revenues: Support revenue for first half of 2017 grew 17% to \$412 compared to \$351 revenue for the first half of 2016. This is attributable to growth in Etherstack's installed support client base in particular from the network projects delivered in the later part of 2016 being 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.
- Modest level of project deployment activity in the first half of 2017 which is consistent with the comparative six month period for 2016. These revenues can be "lumpy" in nature as shown by the differences in 2016 first half revenue (\$1,548) compared to 2016 second half revenue (\$4,549).
- Increased sales of the group Go Box tactical repeater to Australian customers

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 \$1,037 to \$863 despite increased revenues. This decrease reflects a change in the revenue mix with higher support and royalty revenues, as outlined above, relative to product revenues.
- Administrative costs have decreased from \$2,497 to \$2,241 a decrease of \$256 representing 10%. The largest decrease, \$151, is in amortisation expenses with employment related expenses also decreasing by \$91.

## **DIRECTORS' REPORT Continued**

- Finance costs are reported as nil in current reporting period comprising an interest charge and other finance costs of \$135 which have been offset by a credit generated from a favourable embedded derivative revaluation at the end of first half 2017.

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 \$419 compared with \$663 in the first half of 2016. This reflects a slightly reduced cost base and a changed mix of revenue generating activities and intellectual property development activities.
- An income tax benefit of \$230 (2016 \$241) was earned due mainly to income tax refunds arising from research and development incentives the Group is able to access.

### **Financing activities**

Etherstack successfully completed a Convertible Notes issue in the half year, raising \$593 from existing shareholders including directors. The issue was done to strengthen the working capital position.

### **Future developments**

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

- developing and releasing products such as the Go Box and the IVX and in the current half year actions have been implement this plan:
  - North American certifications for the Go Box are underway, and will be complete in 30 days expanding addressable market 20 fold for this product
  - "IVX" Product Launch Q3 2017 Soon to be released SatCom/3G/4G communications device currently under field trials with US & Australian government customers. Strong interest in product shown with state and federal agencies
- increasing recurring revenues from support contracts and royalty arrangements. As noted above, both support and royalty streams have increased in the half year.
- Increasing sales resources in Australia and restructuring existing sales resources to better match resources and market opportunities.

### **Revenue and profit guidance**

Etherstack derives revenues from different sources. Some of the projects Etherstack undertakes are individually significant to revenue for the year or half year. The timing of commencement or completion of these individually significant projects can cause a significant impact on the timing of recognition of project related revenues and hence revenue forecasts. As a consequence the Company may not always have sufficient certainty over the timing of revenue recognition to provide market guidance.

Notwithstanding, in the current year the Company has provided revenue guidance indicating expected revenue for 2017 of between US\$6.4m and US\$6.9m and revenue guidance of between \$7.3m and \$7.8m for 2018.

At this point in time the Company affirms this revenue guidance.

## DIRECTORS' REPORT Continued

The company also noted the following points in connection with the guidance:

- **FY2017 Margins:** COGS savings of ~US\$700k due to higher margin product mix this year
- **FY2017 Cash:** Expected to provide increased positive cash flow over FY16 positive result
- **FY2017 Costs:** Overheads and R&D expenditure estimated to be similar to FY2016 numbers
- **FY2017 Amortisation:** (Non-cash) charge to be similar to FY2016 (US\$2.48m)
  
- **FY2018 Margins:** Similar to FY17
- **FY2018 Cash:** Expected to provide increased positive cash flow over FY17 positive result
- **FY2018 Costs:** Overheads and R&D expenditure to be in line with FY2017 numbers
- **FY2018 Amortisation:** (non-cash) charge in FY2018 to be significantly lower (~US\$1.3m)

### 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 2017

## **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 2017, 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.



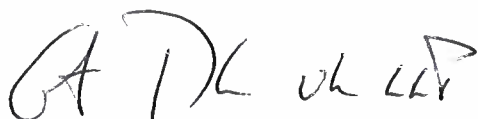
## Independent Auditor's Review Report - continued

### 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 2017 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.

### Emphasis of Matter – 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. 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.

Handwritten signature in black ink, appearing to read "GTL UK LLP".

Grant Thornton UK LLP, Cambridge

30 August 2017

**Consolidated Statement of Comprehensive Income  
For the period ended 30 June 2017**

	Half year ended 30 June 2017 USD \$'000 (unaudited)	Half year ended 30 June 2016 USD \$'000 (unaudited)
<b>Revenue</b>	1,714	1,548
Cost of sales	(863)	(1,037)
<b>Gross Profit</b>	851	511
Other administrative expenses	(2,241)	(2,497)
Net foreign exchange gains/(loss)	(62)	7
<i>Group operating loss from continuing operations</i>	(1,452)	(1,979)
Finance costs	-	(322)
<i>Loss before taxation</i>	(1,452)	(2,301)
Income tax benefit	230	241
<i>Loss after taxation for the period attributable to the equity holders of the parent</i>	(1,222)	(2,060)
<i>Other comprehensive income/(loss)</i>		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	50	108
<b>Total comprehensive loss for the period attributable to the equity holders of the parent</b>	(1,172)	(1,952)
<b>Loss per share attributable to the equity holders of the parent</b>		
Basic loss for the period (in US cents)	(1.09)	(4.58)
Diluted loss for the period (in US cents)	(1.09)	(4.58)

The results above relate to continuing operations.

**Consolidated Statement of Financial Position  
As at 30 June 2017**

		30 June 2017 USD \$'000 (unaudited)	31 December 2016 USD \$'000 (audited)
	Note		
<b>NON-CURRENT ASSETS</b>			
Intangible assets	5	4,577	5,092
Property, plant and equipment		10	18
Trade receivables and other assets		218	100
		<hr/> 4,805	<hr/> 5,210
<b>CURRENT ASSETS</b>			
Inventories		206	275
Trade and other receivables		1,660	2,160
Cash and bank balances		76	236
		<hr/> 1,942	<hr/> 2,671
<b>TOTAL ASSETS</b>		<hr/> 6,747	<hr/> 7,881
<b>CURRENT LIABILITIES</b>			
Trade and other payables		4,673	4,982
Borrowings	6	29	-
Deferred revenue		615	814
Current tax liabilities		138	173
		<hr/> 5,455	<hr/> 5,969
<b>NON-CURRENT LIABILITIES</b>			
Deferred revenue		121	47
Deferred tax liabilities		117	133
Borrowings	6	462	-
Employee entitlements		32	-
		<hr/> 732	<hr/> 180
<b>TOTAL LIABILITIES</b>		<hr/> 6,187	<hr/> 6,149
<b>NET ASSETS</b>		<hr/> 560	<hr/> 1,732
<b>EQUITY</b>			
Share capital	7	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		(2,411)	(2,461)
Accumulated losses		(9,522)	(8,300)
<b>TOTAL EQUITY</b>		<hr/> 560	<hr/> 1,732

**Consolidated Statement of Changes in Equity  
For the period ended 30 June 2017**

	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 2016</i>							
<b>Balance at 1 January 2016</b>	205	2,282	3,497	413	(1,764)	(6,603)	1,970
Issue of share capital	239	2,860	-	-	-	-	3,099
Transaction costs	-	(88)	-	-	-	-	(88)
Share based payment charge	-	-	-	16	-	-	16
<b>Transactions with owners</b>	239	2,772	-	16	-	-	3,027
Loss for the period	-	-	-	-	-	(2,060)	(2,060)
Other comprehensive income for the period	-	-	-	-	108	-	108
<b>Total comprehensive income for the period</b>	239	2,772	-	16	108	(2,060)	1,075
<b>Balance at 30 June 2016 (unaudited)</b>	444	5,054	3,497	429	(1,656)	(8,663)	(895)
<i>For the half-year ended 30 June 2017</i>							
<b>Balance at 1 January 2017</b>	645	7,742	3,497	609	(2,461)	(8,300)	1,732
Share based payment charge	-	-	-	-	-	-	-
<b>Transactions with owners</b>	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,222)	(1,222)
Other comprehensive income for the period	-	-	-	-	50	-	50
<b>Total comprehensive income for the period</b>	-	-	-	-	50	(1,222)	(1,172)
<b>Balance at 30 June 2017 (unaudited)</b>	645	7,742	3,497	609	(2,411)	(9,522)	560

**Consolidated Statement of Cash Flows  
For the period ended 30 June 2017**

	Note	Six months 30 June 2017 USD \$'000 (unaudited)	Six months 30 June 2016 USD \$'000 (unaudited)
<b>Operating loss</b>		(1,452)	(1,979)
Adjustments for:			
Depreciation of property, plant and equipment		8	34
Amortisation of intangible assets	5	1,088	1,238
Amortisation of finance costs		19	-
Revaluation of embedded derivative		(135)	-
Increase in provision for dilapidation		-	(1)
Net foreign exchange losses		62	17
Equity settled share based transactions		-	16
<b>Operating cash flows before movements in working capital</b>		<b>(410)</b>	<b>(675)</b>
Decrease/(Increase) in inventories		69	(50)
Decrease/(Increase) in receivables		498	(1)
(Decrease) in payables		(860)	(28)
Decrease in income tax payable		(51)	-
(Decrease)/Increase in deferred revenue		(125)	842
<b>Cash (used in)/ generated from operations</b>		<b>(879)</b>	<b>88</b>
Tax paid		(9)	(62)
Interest paid		-	(5)
<b>Net cash flow (used in)/generated from operating Activities</b>		<b>(888)</b>	<b>21</b>
<b>Investing activities</b>			
Capitalised development costs	5	(419)	(663)
<b>Net cash flow used in investing activities</b>		<b>(419)</b>	<b>(663)</b>
<b>Financing activities</b>			
Increase in loans from related parties	7	675	268
Proceeds of convertible note issue		573	-
Repayment of borrowings		(130)	(2,614)
Cash proceeds from issue of share capital		-	3,099
Transaction costs on issue of shares		-	(88)
<b>Net cash from financing activities</b>		<b>1,118</b>	<b>665</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(189)</b>	<b>23</b>
Cash and cash equivalents at beginning of period		236	51
Effect of foreign exchange rate changes		29	(13)
<b>Cash and cash equivalents at end of period</b>		<b>76</b>	<b>61</b>

## 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 2017 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 2016.

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 2016. The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 29 August 2017.

#### 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 2017, the Group incurred a loss after tax of \$1,222 which includes non-cash amortisation of \$1,088 and the Group has net assets of \$560.

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 2017 compared to the first half of 2016 and 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 that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified further mitigating actions that could be implemented to preserve cash if required. Additionally, and as evidenced in Note 6, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

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 2017 to 30 June 2017 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 2016 to 30 June 2016 and the audited financial year to 31 December 2016. 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 2016 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 emphasis, without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

### 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 2016.

### 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 2016.

## Notes to the Condensed Consolidated Financial Statements

### 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 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
<b>Cost</b>				
At 1 January 2016	16,356	697	805	17,858
Additions	663	-	-	663
Exchange differences	-	-	13	13
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2016	17,019	697	818	18,534
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 1 January 2017</b>	17,649	697	797	19,143
Additions	419	-	-	419
Exchange differences	-	-	82	82
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2017</b>	18,068	697	879	19,644
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated amortisation</b>				
At 1 January 2016	10,618	576	377	11,571
Charge for the period	1,167	21	50	1,238
Exchange differences	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2016	11,785	597	427	12,809
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 1 January 2017</b>	12,955	618	478	14,051
Charge for the period	1,014	21	53	1,088
Exchange differences	-	-	(72)	(72)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 30 June 2017</b>	13,969	639	459	15,067
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Carrying amount</b>				
At 30 June 2017	4,099	58	420	4,577
	<hr/>	<hr/>	<hr/>	<hr/>
At 30 June 2016	5,234	100	391	5,725
	<hr/>	<hr/>	<hr/>	<hr/>



## Notes to the Condensed Consolidated Financial Statements

### 6. Convertible notes

	USD \$'000
Amortised cost as at 1 January 2017	-
Issued in the period	184
Interest costs	10
Amortisation of finance costs	19
Effect of foreign exchange	3
	<hr/>
Amortised cost at 30 June 2017	216
Embedded derivative as at 1 January 2017	-
Issued in the period	410
Fair value adjustment as at 30 June 2017	(135)
	<hr/>
Embedded derivative at 30 June 2017	275
	<hr/>
Convertible notes	491
	<hr/> <hr/>
<b>Disclosed as:</b>	
Current liabilities	29
Non-current liabilities	462
	<hr/>
Convertible notes	491
	<hr/> <hr/>

At 30 June 2017 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 2017 is \$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:

- Loans of \$28 were advanced by the deferral of salary payments.
- Interest accrued in the period is nil.

At 30 June 2017, \$506 remains owing to David Deacon. The loan of \$32 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being \$ 474 (2016 \$445) 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:

- Paul Barnes advanced a \$78 loan in April 2017. Interest of \$2 was accrued for the half year and no repayments were made.
- Loans of \$19 were advanced by the deferral of salary payments and expenses.

At 30 June 2017, USD \$238 is owing to Paul Barnes. The loan of \$80 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being \$158 (2016 \$139) 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:

- Peter Stephens advanced a \$597 loan in May 2017. Interest of \$19 (2016 \$51) was accrued for the half year and \$65 repayments were made.
- Loans of \$21 (2016 \$41) were advanced by the deferral of salary payments and expenses.
- In the half year Peter Stephens subscribed for 1,290,323 convertible notes with a nominal value of GBP 200,000. During the period, interest of \$4 was accrued.

At 30 June 2017, \$1,104 is owing to Peter Stephens. The loan of \$928 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being \$176 (2016 \$132) 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 8 to 16:
  - (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 2017 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 2017

## 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](http://www.etherstack.com)