



Etherstack plc AND CONTROLLED ENTITIES

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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.

Contents	Page
Corporate Directory	3
Strategic Report	4
Directors and Key Management	10
Corporate Governance Report	12
Directors' report	19
Remuneration report	21
Directors' responsibilities statement	24
Independent auditor's report to the members of Etherstack plc	25
Consolidated statement of comprehensive income	31
Consolidated statement of financial position	32
Company statement of financial position	33
Consolidated statement of changes in equity	34
Company statement of changes in equity	35
Consolidated statement of cash flows	36
Company statement of cash flows	37
Notes to the Consolidated and Company financial statements	38
ASX Additional Information	67

Corporate Directory

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

3rd Floor South,
30-31 Friar Street,
Reading, Berkshire,
RG1 1DX
United Kingdom

Australian Registered Office

Level 1
74-80 Abercrombie Street
Sydney, 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

Strategic Report

On behalf of the Board of Directors, I am very pleased to present this Strategic Report of the activities of Etherstack plc for 2016.

2016 Highlights (all amounts are in USD \$000 unless otherwise stated)

- **169% revenue growth to \$6,097 in line with forecast by the Company in June 2016**
- **\$1,538 turn around in underlying EBITDA¹ to \$836 from negative \$702 EBITDA in 2015)**
- **Underlying NPAT loss cut 57% to \$1,497 (includes non-cash amortisation of \$2,480)**
- **Loss after tax improved to \$1,697 from \$5,979 loss in 2015**
- **Several multi-million dollar projects awarded in North America and Utility sectors which will support future years revenues**
- **Major increase in recurring revenues driven by cumulative long term support contracts**
- **Further broadening of government customer base in Australia and US, including first ever Australian Department of Defence orders**
- **Balance sheet strengthened through \$5,900 (A\$8m) capital raise**
- **Debt substantially retired, significantly reducing interest charges in 2016**
- **Positive cash flow from operating activities of \$753 compared to negative \$130 in 2015**

Principal Activities

The principal activities of the Group throughout the year 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 specialises in wireless technology. Specifically, Etherstack develops software for use in transceivers which enable the transceiver to communicate with a radio network and other transceivers.

Etherstack licenses its software and designs to companies who manufacture telecommunication equipment primarily for government public safety agencies and utilities.

Etherstack derives revenues from:

- Mission critical radio network products; these products may carry Etherstack brands or be sold as “white labelled” equipment (where customer puts its own brand on and sells under 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 provided to the customer.

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 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

¹A reconciliation from Statutory profit/(loss) to underlying EBITDA is set out on page 6-7.

Strategic Report

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

Review of 2016

Revenue growth

Etherstack achieved significant revenue growth of 169% in 2016. This increase was driven by the combination of new network expansion projects, licence deals and growth in recurring royalty and support revenue streams.

Etherstack achieved important contract wins and repeat business in the government radio communications and electric utility sectors in Australia, USA and Canada. Etherstack’s expanded global reach proved its ability to win and deploy complex communications networks around the world that form part of the essential services of all communities.

Repeat business is testament to the value and quality of Etherstack’s solution and support services. The Company won several network expansion projects that include support services agreements which will generate revenue for several years.

Royalty revenues in 2016 rose 182%. This was driven by the increase in sales achieved by manufacturers in 2016 due to maturity of their products in the marketplace, in particular, unit sales of an emerging digital radio standard known as DMR.

Network expansion projects

In April 2016 Etherstack announced a strategic multi-million contract with FirstEnergy’s Jersey Central Power & Light (JCP&L) subsidiary. All deliverables were completed and delivered in 2016 and it is expected there will be significant support revenues for 10 years following completion of the project.

In December 2016 Etherstack contracted with ATCO Electric, a Canadian utility company to provide additional sites and capacity to ATCO Electric’s mission critical radio communications network. The first phase of the expansion contract was delivered in 2016 and the Company anticipates additional deployment phases in 2017 and beyond, as well as recurring support revenues, that are expected to generate approximately \$3,100 over 4 to 5 years, dependent on the final network rollout plan.

Also in December 2016 Etherstack received a network expansion order for an electric utility network in Queensland, Australia. This utility has been a customer of Etherstack technology since 2011 and continued expansion through the addition of extra sites is expected in 2017 and 2018.

Licence transactions

Etherstack announced a substantial technology licensing contract with NEC Corporation in October 2016 for Etherstack wireless technology to be incorporated into NEC products.

The agreement relates to technology delivered in 2016 by a multinational team of Etherstack engineers from the company’s European R&D centres with local support provided by Etherstack’s office in Yokohama, Japan. The contract contributed \$585 to Etherstack’s 2016 revenues.

Recurring royalty and support revenue streams

Support contracts are generally linked to network deployment projects and as a result of the new/expansion contracts outlined above, support revenues increased 68% over 2015 as more network sites were enabled. As further networks and sites are deployed, such as those sold and delivered in late 2016, additional support revenues will be generated in 2017 and future years.

Royalties are generated from licence agreements whereby equipment manufacturers pay Etherstack a licence fee per item manufactured for the use of Etherstack technology in their products, such as base stations and handsets.

As noted above, Royalty revenues in 2016 grew 182%. Importantly, these royalty and support revenues are less volatile than project revenues and help to smooth earnings.

Strategic Report

Result, underlying loss after tax and underlying EBITDA

The Statutory loss for the year after tax is \$1,697 which may be compared to the 2015 loss of \$5,979. This is a significant improvement however the losses in 2016 and 2015 include items which have negatively impacted the result;

- Provision against carrying value of inventory \$200 (2015 \$nil). This stems from inventory acquired as part of the settlement of a commercial dispute which gave rise to the 2015 expense described as Debt subject to claim and legal fees. While the inventory remains current and saleable, in the absence of sales to date the Group has provided in full against this inventory.
- Impairment to intangibles 2016 \$nil (2015 \$2,094)
- Debt subject to claim and legal fees 2016 \$nil (2015 \$385)

The company considers underlying profit/(loss) after tax and underlying EBITDA excluding these items to be more suitable indicators of performance.

Underlying loss after tax has improved from a loss of \$3,500 in 2015 to a loss of \$1,497 in 2016 – an improvement of 57%.

Underlying EBITDA has been improved from a loss of \$702 in 2015 to a positive result of \$836 in 2016 – an improvement of \$1,538 representing a 219% increase.

The improvements in underlying results are attributable to:

- Improved revenues as outlined above
- Improved gross margins – gross margins can vary significantly depending upon the nature of the projects underway in any particular period which may differ markedly. This can make high level inter-period comparisons of gross margins potentially misleading.
- Cost restraint, in particular, reduced finance costs noted below.

It should be noted that the largest single contributor to the negative NPAT result is a (non-cash) amortisation charge of \$2,480 as the company continues to amortise its intangible Intellectual property assets on a 6 year straight line basis. It should be further noted that this (non-cash) charge in 2017 is expected to be 10% lower than 2016, before decreasing to approximately \$1,200 in 2018 and 2019.

Reconciliation of underlying profit/(loss) after tax, EBITDA and underlying EBITDA

	31 Dec 2016	31 Dec 2015
Statutory profit/ (loss) after tax	(1,697)	(5,979)
After tax effect of:		
Impairment to intangibles	-	2,094
Debt subject to claim and legal fees	-	385
Slow moving stock provision	200	-
Underlying profit/ (loss) after tax	(1,497)	(3,500)
 Statutory profit/(loss) after tax	 (1,697)	 (5,979)
After tax effect of:		
Depreciation	61	60
Amortisation	2,480	2,723
Impairment	-	2,094
Interest	294	483
Income tax	(502)	(468)
EBITDA	636	(1,087)

Strategic Report

EBITDA	636	(1,087)
After tax effect of:		
Debt subject to claim and legal fees	-	385
Slow moving stock provision	200	-
Underlying EBITDA	836	(702)

Finance costs

Finance costs have also fallen from \$483 to \$294 following the repayment of convertible notes in the year after the capital raise. These costs are likely to decline further in 2017 due to a substantial reduction in interest costs as a result of significant debt reduction.

Capital raise and debt reduction

During the year, Etherstack undertook a 3 for 1 entitlements issue. The purpose of the raise was to strengthen the balance sheet net asset position and to provide additional working capital for the Company together with funding to repay debt and convertible notes.

The outcome of the raise was the issue of 79,704,529 CDIs, raising AUD \$7,970,453 before issue costs and making the total issued capital of the Company 111,685,313 fully paid ordinary shares. After allowing for issue costs, the increase in net assets was US \$5,900.

The vast majority of these funds were used to repay Convertible Notes and other debt reductions.

Intellectual property development

The group continues to invest in its suite of intellectual property assets and has invested \$1,293 in the current year compared to \$1,577 in 2015.

Notwithstanding the reduced cost base, the Group maintains the engineering skillsets and capacities to complete the developments in progress and to develop new technology to respond to opportunities in the future.

The 2016 investment is significant and represents 22% of revenue. The average investment in intellectual property over the last 3 years is \$1,736 which is on average, over the last 3 years, 34% of revenue.

Cash flows

Cash flows from operating activities improved markedly over 2015. 2016 saw a positive cashflow from operating activities of \$753 compared to a negative \$130 in 2015. The reasons underlying this improvement are the increases in revenue outlined above.

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled \$6,097 compared to \$2,263 in 2015. The major reasons for the increase in revenues have been outlined above.

The second key performance indicator is recurring revenues representing royalty revenues and revenues from support and maintenance contracts. These revenues are important as they reduce reliance on project based revenues which, although significant, can be volatile in nature. Combined royalty revenue and support/maintenance for 2016 was \$1,066 compared to \$550 in 2015 representing an increase of \$516 or 93%.

The Groups' expectation is that royalty and support/maintenance income will continue to increase as a result of the commercial maturity of a number of our products and a growing installed base of supported customer networks.

Another key performance indicator for the Group is the investment in the development of intellectual property assets. As seen in the graph above this year Etherstack invested 22% of its revenue into intellectual property assets which over the last three years accounts for an average of 34% of total revenue.

Strategic Report

Risks

The management of the business and the execution of the Group's strategy expose it to a number of risks. These risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them.

Key business risks affecting the Group are set out below.

- ***Dependence on key contracts***

Etherstack is dependent on a number of key contracts. Growing the total revenue of the Group will reduce the significance of individual contracts or projects relative to the Groups total revenue. In addition, growth of royalty revenue streams stemming from products reaching commercial maturity and growth of support revenue streams reduces dependence on individually significant contracts. The 93% increase in royalty and support revenues has been outlined above. However, the impact of individually significant contracts remains in existence at the balance sheet date.

- ***Technology risk***

Etherstack relies on its ability to develop and further commercialise the technologies and products of the Company. Etherstack's operations include the design and delivery of products for secure communication, homeland security, defence and aerospace related markets. This is a fast moving industry and there can be no assurance that future products and systems introduced into the market by the Group will be profitable and cash generative.

To manage this risk, Etherstack closely monitors the markets for our products and is a member of industry associations and Standards Committees. Successfully managing this technology risk and identifying product innovations is a key part of Etherstack operations and receives the appropriate resources to manage the risks.

- ***Intellectual property and know-how risk***

Securing rights to the intellectual property and the know-how behind the technologies is an integral part of the value of Etherstack's products. Etherstack ensures legal protection of our intellectual property is included in all customer and employee contracts and ensures that IT controls are in place to control access to sensitive intellectual property and associated documentation and information.

- ***Economic and exchange rate risk***

The Group operates in four different countries/regions each using their own currency. The Group's presentational currency is US\$, as a result, Etherstack is subject to currency and foreign exchange pricing swings, which may have a positive or negative effect on the performance of the Group. General economic conditions, movements in interest and inflation rates may have an adverse effect on the Group's activities, as well as on its ability to fund those activities. The Group has natural hedges which reduce the exposure to currency fluctuations and from time to time enters forward rate agreements in the event that additional currency protection is considered necessary. Further information on these risks is set out in the Note 16 to the financial statements.

- ***Product liability and uninsurable risk***

The Group is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products and technologies. The Group has secured insurance to help manage such risks.

Strategic Report

- **Liquidity risk**

The Group aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate appropriate levels of working capital and when necessary to facilitate fund raising activities.

2016 Overall

2016 has been a good year for the Group from a revenue perspective with several multi-million dollar projects awarded in North America and Utility sectors producing 169% revenue growth to \$6,097 plus a major increase in recurring revenues underpinning future years. 2016 has also been a good year in terms of positioning for further improvements.

Revenue growth has been translated into improvements in underlying EBITDA with a \$1,539 turn around in underlying EBITDA to US\$836 from negative \$703 in 2015 and NPAT loss cut 57% to \$1,490. Similarly, revenue growth has meant positive cash flow from operating activities of \$753 compared to negative \$130 in 2015

In addition, the Balance sheet has been strengthened through \$5,900 (AUD\$8,000) capital raise which enabled debt to be retired and will also see a reduction in interest charges in future years.

The Group has an increased installed customer base, a healthy revenue pipeline and a portfolio of established and emerging technology products and looks forward to further improvements in financial results in 2017.

The strategic report is approved by the Board of Directors and signed on its behalf by:



David Deacon
Chief Executive Officer

Directors and Key Management

Board of Directors

Peter Stephens – Non-Executive Chairman

Peter is currently Chairman of Etherstack, Chairman and CIO of Cavendish Ware, Wealth managers and a director of various private companies. He also runs a venture capital practice. He was Chairman of Getech on flotation on AIM in 2005 until 2013 and remains a director. Peter has recently become Chairman of True Luxury Travel, a long haul holiday specialist currently focused on Africa. He is also Chairman of Boisdale Canary Wharf, a restaurant. He was a director of Tristel plc from flotation on London Stock Exchange's AIM market in 2005 until 2013. He was previously Head of European Equities Sales at Salomon Brothers and Credit Lyonnais. He has an MA in Jurisprudence from Oxford University and qualified as a Barrister in 1978.

Peter has been on the board of Etherstack London Limited since September 2007 and was appointed to the Board of Etherstack plc in 2012 as Chairman.

Paul Barnes, FCCA MCSI – Non-Executive Director

Paul has wide experience in venture development, financial strategy and management, corporate finance and M&A disciplines.

Paul started his career with the City of London accounting firm Melman Pryke & Co (now part of Grant Thornton). Following qualification, he then worked in both accountancy practice and commerce, specialising in developing businesses in a wide range of activities from software development and commercial property to regulated commodities brokers, taking senior management positions with a successful freight importer and a full service executive jet aviation company.

Paul co-founded and raised funds for various successful “start-up” businesses in property and telecommunication sectors including UK Telecom plc and subsequently in the securities industry and healthcare and biomass renewable sectors.

Paul has been a key member of the teams in the development and admission to the London Stock Exchange's AIM market of both Tristel plc and Oxford Catalysts plc raising substantial funds for both companies, where he served as the Executive Finance Director and in the establishment of Amersham Investment Management Limited an FCA regulated investment management firm.

Paul is a Fellow of the Association of Chartered Certified Accountants, a registered auditor in the UK and a member of the UK's Chartered Institute for Securities and Investment.

Paul joined Etherstack in 2002 as Finance Director and CFO, and held these positions throughout the development and expansion of Etherstack until December 2011. Paul was appointed a Director of Etherstack plc in February 2012.

Scott Minehane – Non-Executive Director

Scott is an international regulatory and strategy expert in the telecommunications sector and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and Africa. His expertise extends to spectrum management and new generation fixed and mobile technologies including optical fibre and 4G/LTE and 5G services.

Scott has a separate consultancy practice, through which he has advised a range of leading corporates and organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, World Bank, International Telecommunications Union (ITU), Competitive Carriers Coalition ('CCC'), Macquarie Telecommunications, Malaysian Communications and Multimedia Commission (MCMC), National Broadcasting and Telecommunications Commission (Thailand), TRA (UAE), KPMG, Telekom Malaysia, Axiata Group, edotco Group, and Telkom South Africa. He was the principal author of an ITU/Huawei report entitled *White Paper on Broadband Regulation and Policy in Asia-Pacific Region: Facilitating Faster Broadband Deployment* which was released at ITU Telecom World in Bangkok in November 2016.

Directors and Key Management

Scott has a Bachelor of Economics and a Bachelor of Laws from the University of Queensland and holds a Master of Laws specialising in Communications and Asian Law from the University of Melbourne.

Scott joined the Board as an Independent Non-Executive Director in 2012 and became chairman of the Audit & Risk Management Committee in 2012. In 2016, Scott became chairman of the Remuneration and Nomination committees.

David Deacon – Chief Executive Officer, Executive Director

David has almost 20 years' experience in the wireless communications industry. Prior to Etherstack, David founded and ran an Australian wireless technology company, Indian Pacific Communications Pty Ltd, for six years until it was sold to a public company in April 2000. Before this, David led software development teams involved in wireless research and development in Perth and Sydney.

David founded Etherstack in 2002 and has been Chief Executive Officer since that date. In this time, David has overseen Etherstack's growth into a global operation and the development of industry leading wireless communications technology assets.

Senior management

John Boesen – Chief Operating Officer

John joined Etherstack as Head of Engineering of the Networks Divisions in 2012, bringing with him over 20 years' experience in leading product and engineering teams to commercialise innovative and mission critical software and hardware solutions. John was appointed Chief Operating Officer in January 2014 and left Etherstack employment on 31 December 2016.

Prior to Etherstack, John lead multi-disciplinary innovation and delivery focused teams, ran program management functions, undertaken process re-engineering, delivered successful technology and cultural change management programs, developed strategies to drive market growth and mentored leaders on all aspects of leadership and high performance.

John has a Bachelor of Science from University of New South Wales majoring in Mathematics and Computer Science.

David Carter – Chief Financial Officer and Company Secretary

David worked within the audit and assurance practice of Coopers & Lybrand and PricewaterhouseCoopers for 12 years in Australia and The Netherlands.

David has held senior finance roles in IT companies including Dimension Data and Computer Science Corporation and was CFO and company secretary of a software reseller and engineering services provider before joining Etherstack as CFO in September 2011.

David has a Bachelor of Commerce degree from University of New South Wales, is a member of the Institute of Chartered Accountants in Australia, and holds an Executive MBA from the Australian Graduate School of Management.

Corporate Governance Report

At 31 December 2016

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc Group of companies (the Group). Etherstack plc (the Company) is a wireless communications technology provider whose strategy is to add substantial shareholder value through the design, development and deployment of products for radio communication networks used by governments, such as those used by defence and police forces, public safety departments, such as ambulance and fire, and radio networks used by utilities, such as electricity companies. The Board has adopted a corporate governance framework, based upon ASX Corporate Governance Principles, which it considers to be suitable given the size, history and strategy of the Company.

Further details relating to the Company's corporate governance practices can be found on the Company's website at www.etherstack.com in the "Investor" section under "Corporate Governance".

Principle 1: Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall strategy, governance and performance of the Company.

Board Charter

The Board has adopted a formal Board Charter which clearly details its functions and responsibilities and delineates the role of the Board from that of the senior executives. The Board's function and responsibilities include strategy and planning, corporate governance, appointment of the Chief Executive Officer (CEO), remuneration, capital expenditure and financial reporting, performance monitoring, risk management, audit and compliance, developing and monitoring diversity policies and objectives.

Executive Directors are provided with executive contracts of employment and Non-Executive Directors are provided with service agreements setting out the key terms and conditions relative to that appointment.

The Board Charter is available on the website in the "Investor" section under "Corporate Governance".

The Company Secretary is responsible for supporting the effectiveness of the Board and is directly accountable to the Board, through the Chairman, on all matters to do with the proper functioning of the Board.

Principle 2: Structure the board to add value

Structure of the Board

The Board currently consists of four directors comprising, Non-executive Chairman, two Independent Non-Executive Directors and one Executive Director:

Mr Peter Stephens, Chair – Non-Executive Director

Mr Paul Barnes – Independent, Non-Executive Director

Mr Scott Minehane – Independent, Non-Executive Director

Mr David Deacon – Chief Executive Officer and Executive Director

The term of office held by each Director is set out in the Directors Report.

The skills, experience and expertise of each Director are set out on pages 10 and 11. At all times, the Board is to have a complementary mix of financial, industry and technical skills. The Board believes the current members have the necessary knowledge and experience to direct the Group. A summary of Board members skills is set out below.

Corporate Governance Report

At 31 December 2016

Experience and skills	Number of directors
International business	4
Strategy and innovation	4
Management and leadership	4
Accounting, finance and banking	2
Equity, capital markets, mergers and acquisitions	4
Corporate governance	2
Regulatory and compliance	2
IT/Technology	4
Legal	2
Chief Executive Officer, Chief Financial Officer or Chief Operating Officer experience	4

Chairman's responsibilities and independence

The Board Charter provides that the Chairman of the Board is responsible for the leadership of the Board, ensuring the Board is effective, setting the agenda of the Board, conducting Board meetings and conducting shareholder meetings.

The Chairman of the Board, Peter Stephens, is a Non-Executive Director.

In 2016, following participation in the Entitlement issue and shortfall offer in which Peter Stephens increased his shareholding, Peter Stephens is no longer considered an independent director. Peter Stephens was an independent director from the date of his appointment in 2012 through to 2016. Peter Stephens remains as Chairman of the Board of Directors of Etherstack plc.

Board independence

An independent Director, in the opinion of the Board, must be independent of management and have no business or other relationship that could materially interfere with – or could reasonably be perceived materially to interfere with – the independent exercise of that director's judgement. Any independent Director will meet the definition of what constitutes independence as set out in the ASX Recommendations. The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

At this time, there are two Directors the Board has classified as independent - Paul Barnes and Mr Scott Minehane. Accordingly, the Board does not have a majority of independent Directors however the Board composition is considered appropriate for the Company in its current circumstances.

Paul Barnes is a significant shareholder holding 6.13% of the issued capital of Etherstack plc however the Board is of the opinion this shareholding does not compromise Paul Barnes' independence. The Board has formed this view on the basis of Paul Barnes ability to demonstrate the judgements required of an independent director from his appointment as a director of Etherstack plc in 2012 up to 2016 when participation in Entitlement issue and shortfall offer led to Paul Barnes' shareholding exceeding 5%.

The Board Charter states that the Board aims to have at all times a Board of directors with at least two independent Non-Executive Directors and having the appropriate mix of skills, experience, expertise and diversity relevant to the Company's businesses and the Board's responsibilities.

Corporate Governance Report

At 31 December 2016

Board committees

To assist the Board in carrying out its functions, the Board has established:

- an Audit and Risk Management Committee (refer Principle 4 summary);
- a Remuneration Committee (refer Principle 8 summary); and
- a Nomination Committee.

Each Committee is established according to a Charter that is approved by the Board. Each Committee is entitled to the resources and information it requires to discharge its responsibilities, including direct access to senior executives, employees and advisers as needed. Terms of reference of each committee, explaining its role and the authority delegated to it by the Board, are available on the Company's website. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

Nomination Committee

The Nomination Committee must have a majority of independent Directors. Peter Stephens, Scott Minehane, and Paul Barnes are members of this committee. Scott Minehane acts as Chairman of the committee. When appointing members of each committee, the Board shall take account of the skills and experience appropriate for that committee as well as any statutory or regulatory requirements. The responsibilities of the committee include reviewing Non-Executive Director remuneration, assessing the skills, diversity and necessary industry, technical or functional experience required by the Board, recommending directors for re-election and conducting searches for new Board members when required.

Director selection process and Board renewal

The composition of the Board is reviewed regularly to ensure the appropriate mix of skills, diversity and expertise is present to facilitate successful strategic direction.

As detailed in the Board Charter, in appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. Consideration will also be given to achieving a Board with a diverse range of backgrounds.

The process used for selecting new members for the Board, as set out in the Board Charter, may be assisted by the use of external search organisations as appropriate. An offer of a Board appointment will be made by the Chairman of the Board only after having consulted all Directors. Detailed background information in relation to a potential candidate is provided to all Directors.

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2016 included an assessment of the performance of the Board, the Board Committees, and each Director. The review:

- compared the performance of the Board and each Committee with the requirements of its Charter;
- critically reviewed the composition of the Board; and
- reviewed the Board and each Committee Charter to consider whether any amendments to the Charters were deemed necessary or appropriate.

The Board discussed the results of the review and follow up actions on matters relating to Board process and priorities.

Induction

The Company Secretary facilitates an induction program for new Directors. The program will include meetings with senior executives, briefings on the Company's strategy and operations, provision of all relevant corporate governance material and policies and discussions with the Chairman and other Directors.

Corporate Governance Report

At 31 December 2016

Continuing education

Directors are provided with continuing education opportunities to update and enhance their skills and knowledge. This consists of regular updates for the Board from management, separate to Board meetings to ensure Non-Executive Directors are well-informed of the Company's operations and any recent developments.

Access to information, indemnification and independent advice

The Company Secretary provides assistance to the Board, and Directors also have access to senior executives at any time to request any relevant information. The Board Charter provides that:

- all Directors have unrestricted access to company records and information except where the Board determines that such access would be adverse to the Company's interests;
- all Directors may consult management and employees, as required, to enable them to discharge their duties as Directors; and
- the Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Conflicts of interest

The Constitution and Code of Business Conduct and Ethics sets out the obligations of Directors in dealing with any conflicts of interest. Pursuant to the Constitution and the Code of Business Conduct and Ethics, Directors are obliged to:

- disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- take any necessary and reasonable measures to resolve the conflict; and
- comply with all laws in relation to disclosure of interests and restrictions on voting.

Unless the Board determines otherwise, a Director with any actual or potential conflict of interest in relation to a matter before the Board, does not:

- receive any Board papers in relation to that matter; and
- participate in any discussion or decision making in relation to that matter.

Operation of the Board

The Board met 6 times during the year. The agenda for each meeting allows an opportunity for the Chairman and Non-Executive Directors to meet without executives present. The agenda and relevant briefing papers are distributed by the company secretary on a timely basis, usually a week in advance of each Board meeting.

The following table summarises the number of board and committee meetings held during the year and the attendance record of each directors:

	Board meetings		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Peter Stephens	6	6	7	7	1	1	1	1
Paul Barnes	6	6	7	7	1	1	-	-
David Deacon	6	6	-	-	-	-	1	1
Scott Minehane	6	6	7	7	1	1	1	1

Corporate Governance Report

At 31 December 2016

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

The Company has implemented a corporate Code of Business Conduct and Ethics (the Code) which applies to Directors and all employees. The Code provides a framework for decisions and actions for ethical conduct. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The Code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from Directors and employees.

Employees are encouraged to raise any matters of concern in good faith with the head of their business unit without fear of retribution. Where the matter is inappropriate to be raised with the head of their business unit, employees are able to raise the matter with the CEO or CFO as appropriate.

The CFO reviews and reports directly to the Board on any material breaches of the Code. The Audit and Risk Committee oversees procedures for whistleblower protection.

A copy of the Code is available on the Company's website in the "Investor" section under "Corporate Governance".

Dealings in securities

The Company has implemented a Securities Trading Policy which covers dealings in the Company's securities by its Key Management Personnel (Directors and those employees reporting to the CEO). The Securities Trading Policy sets out the guidelines for trading in the Company's securities, including closed periods, exceptions and approval and notification requirements.

A copy of the Securities Trading Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Diversity

The Company has implemented a Diversity Policy.

The Company considers that the gender ratio of employees reflects the gender ratio of the qualified engineer pool. The Company does not, therefore, believe that establishing measurable objectives for achieving gender diversity would provide any benefit above that already achieved via the Diversity Policy.

At the date of this report, the gender ratio is as follows:

- 4 Board members: all male,
- Chief Operating Officer and Chief Financial Officer: both male,
- Workforce (excluding senior management and executive directors); 22 Employees: 2 female, 20 male

The Diversity Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

The Board has established an Audit and Risk Management Committee governed by the Audit and Risk Committee Charter, which is available on the Company's website in the "Investor" section under "Corporate Governance".

The objective of the Audit and Risk Committee is to assist the Board in monitoring and reviewing any matters of significance affecting financial reporting and compliance. The Audit and Risk Management Committee's responsibilities include:

- Oversee the Company's relationship with the external auditor and the external audit function generally;
- Oversee the preparation of the financial statements and reports;
- Oversee the Company's financial controls and systems;
- Review, monitor and approve risk management policies, procedures and systems; and
- Manage the process of identification and assessment of any material financial and nonfinancial risks (including enterprise risks and risks in relation to occupational health and safety) that may impact the business.

Corporate Governance Report

At 31 December 2016

Audit and Risk Management Committee composition

The Audit and Risk Management Committee consists only of Non-Executive Directors and the Chairman is not the Chairman of the Board. The members of the Audit and Risk Management Committee are Mr Scott Minehane, Chair of the Committee, Mr Peter Stephens and Mr Paul Barnes. Both Mr Scott Minehane and Mr Paul Barnes are Independent Non-Executive Directors.

During the year, 5 meetings of the Committee were attended by the lead external audit partner and, by invitation, the Chief Executive Officer and the Chief Financial Officer attended 7 meetings.

The Board of Directors has received assurance from the Group Chief Executive Officer and the Chief Financial Officer a declaration the financial information included in the annual report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Etherstack's external auditor attends the Company's Annual general meeting and is available to answer questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

- compliance with the requirements of the ASX Listing Rules, all relevant regulations and the ASX Recommendations;
- facilitation of an efficient and informed market in the Company's securities by keeping the market apprised through ASX announcements of all material information.

The Company has implemented a Disclosure Policy which is designed to support the commitment to a fully informed market in the Company's securities by ensuring that announcements are:

- made to the market in a timely manner, are factual and contain all relevant material information; and
- expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

The Disclosure Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 6: Respect the rights of shareholders

The Company has adopted a Communications Policy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders through:

- half yearly and annual reports;
- disclosures and announcements made to the Australian Securities Exchange (ASX);
- notices and explanatory memoranda of Annual General Meetings and Extraordinary General Meetings and addresses or presentations made at those meetings; and
- the Company's website.

The Board also encourages participation by shareholders at all shareholder meetings.

The Communications Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Corporate Governance Report

At 31 December 2016

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

- its culture, processes and structures facilitate realisation of the Company's business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- to the extent practicable, its systems of risk oversight, management and internal control comply with ASX Recommendations.

The Board determines the Company's risk profile and is responsible for overseeing and approving the Company's risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Management Committee responsibility for implementing the risk management system and reporting to the Board. Key business risks affecting the Group have been outlined in the Strategic Report.

The Audit and Risk Committee reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound and such a review has taken place in relation to 2016.

The Company does not have an internal audit function. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report to the Audit and Risk Management Committee.

Etherstack does not have any material exposure to economic, environmental and social sustainability risks.

A copy of the Company's risk management policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee, which is governed by the Remuneration Committee Charter. The Charter is available on the Company's website in the "Investor" section under "Corporate Governance".

The primary purpose of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders by:

- reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive Directors;
- fairly and responsibly rewarding executives having regard to the performance of the Company, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives and conducting an annual review of remuneration by gender; and
- reviewing and approving any equity based plans and other incentive schemes.

A performance evaluation was undertaken in the reporting period in accordance with the periodic performance evaluation process.

The Remuneration Committee consists only of Non-Executive Directors. The members of the Remuneration Committee are Mr Peter Stephens, Mr Paul Barnes and Mr Scott Minehane, Chair of the Committee. Mr Scott Minehane and Mr Paul Barnes are Independent Non-Executive Directors.

Directors' Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2016. All amounts are in USD \$000 unless otherwise indicated.

This report should be read in conjunction with the Strategic Report on pages 4 to 9.

1. Board of Directors and Officers of the company

The names of the Directors who held office during the 2016 year and to the date of this report were:

Director Name	Position	Appointed
Peter Stephens	Non-Executive Chairman	22 May 2012
Paul Barnes, FCCA	Non-Executive Director	15 February 2012
David Deacon	Executive Director and CEO	15 February 2012
Scott Minehane	Non-Executive Director	22 May 2012

The joint company secretaries are Paul Barnes and David Carter.

2. Results

The Group realised a loss after tax for the year of \$1,697 (2015 loss of \$5,979).

Loss per share

Basic loss per share from continuing operations decreased from (18.7) US cents in 2015 to (2.2) US cents in 2016.

3. 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. During the year, the Group incurred a loss after tax of \$1,697 (2015 loss of \$5,979) and is in a net current liability position as at 31 December 2016. As highlighted in the Strategic Report, the Group significantly increased revenues, in particular recurring revenues and generated positive underlying EBITDA of \$836 (2015: negative \$702).

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets to generate the cash flows set out in the business plan.

The Directors have considered the financial performance of 2016, the strength of the sales pipeline, contracts in progress, royalty 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 certain mitigating actions that could be implemented to preserve cash if required. Additionally, 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 that these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and these material uncertainties 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.

Directors' Report

4. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: \$nil).

5. Directors' indemnity insurance

The Company has arranged appropriate Directors' and Officers' insurance to indemnify the Directors against liability in respect of proceedings brought about by third parties. Such provisions remain in place at the date of this report.

6. Auditor

Grant Thornton UK LLP were appointed as auditors of Etherstack plc at the Annual General Meeting in June 2016 and Grant Thornton UK LLP will be proposed for re- appointment at the next Annual General Meeting.

7. Financial risk management objectives

The Group's financial risk management objectives and policies and exposures to risk are outlined in Note 16 to the financial statements.

8. Rounding of amounts and presentational Currency

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. The Group financial statements are presented in US Dollars ("\$\$") which is the Group's presentational currency.

On behalf of the Board



Paul Barnes FCCA
Director
29 March 2017

Remuneration Report

There is no regulatory requirement, other than Companies Act 2006 disclosure requirements, for Etherstack plc to disclose information on the remuneration arrangements in place for Directors and Executives of Etherstack plc, however the Remuneration Committee is committed to good corporate standards and has disclosed information considered relevant to the shareholders.

Remuneration policy for Executive Directors

The remuneration policy for Executive Directors has been designed to ensure Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure the policy aligns the interests of the Executive Directors with those of the shareholders.

The Company's remuneration policy for Executive Directors is to:

- Consider the individuals experience and the nature and complexity of their work in order to set a competitive salary that attracts and retains management of the highest quality;
- Link individual remuneration packages to the Group's long term performance through both bonus schemes and share option plans; and
- Provide post-retirement benefits through payment into pension schemes.

Remuneration package for Executive Directors

Executive Directors' remuneration packages are considered annually by the Remuneration Committee in line with Company policy, with a view to attracting, retaining and motivating Executive Directors of the calibre necessary to deliver the strategic milestones of the Board. Remuneration packages comprise a number of elements as follows:

Base salary

The base salary is reviewed annually. Within the review process, which is undertaken by the Remuneration Committee, regard is given to the profitability and on-going development of the Group and the contribution that each individual makes. Consideration is also given to the need to retain and motivate individuals, with reference made to available information on salary levels in comparable organisations as well as that of the wider workforce of the company. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

Annual performance incentive

The Executive Directors are eligible to receive, at the discretion of the Remuneration Committee, an annual bonus. The Remuneration Committee considers the implementation of bonus awards based upon both corporate and personal performance targets and measures, which align to the long term interests of shareholders.

Pensions and other benefits

The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension plans

Share options

Executive Directors may, at the discretion of the Remuneration Committee, be awarded share options.

The performance of Executive Directors is evaluated by the Remuneration Committee on an annual basis with a view to ensuring that there is a sufficiently strong link between performance and reward. The results of performance evaluations are taken into consideration as part of the annual remuneration review.

Remuneration policy for Non-Executive Directors

Non-Executive Directors are paid a fixed annual fee for acting as a Director of Etherstack plc which is paid for services rendered as a Director. Additionally, under the Articles of Association, a Director may also be paid such special or additional remuneration as the Directors decide, if the Director performs extra services or makes special exertions for the benefit of the company. Such amounts do not form part of the aggregate remuneration permitted under the Articles of Association (the current aggregate remuneration may not exceed \$300,000 per annum).

Remuneration Report

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-Executive Directors each have service agreements that are reviewed annually by the Board.

Directors' remuneration (audited)

The Directors earned the following remuneration:

2016

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,077	262,077
	<u>260,000</u>	<u>2,077</u>	<u>262,077</u>
Non-Executive Directors			
Peter Stephens	31,984	-	31,984
Paul Barnes	37,099	-	37,099
Scott Minehane	32,517	3,089	35,606
	<u>101,600</u>	<u>3,089</u>	<u>104,689</u>
TOTAL	<u>361,600</u>	<u>5,166</u>	<u>366,766</u>

2015

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,077	262,077
	<u>260,000</u>	<u>2,077</u>	<u>262,077</u>
Non-Executive Directors			
Peter Stephens	38,541	-	38,541
Paul Barnes	44,705	-	44,705
Scott Minehane	32,794	3,115	35,909
	<u>116,040</u>	<u>3,115</u>	<u>119,155</u>
TOTAL	<u>376,040</u>	<u>5,192</u>	<u>381,232</u>

Remuneration Report

Director's Share options

In addition, the following options have been issued to Directors.

Name of Director	Options granted	Total options vested as at 1 January 2016	Options vesting in the year	Options lapsing in the year	Total options vested as at 31 December 2016	Exercise price	Earliest date of exercise	Date of expiry
Non-Executive								
Scott Minehane	190,000	190,000	-	-	190,000	AUD\$1.16	25/6/2012	25/6/2017
	125,000	125,000	-	-	125,000	AUD \$0.80	23/6/2014	31/12/2018
Peter Stephens	125,000	125,000	-	(125,000)	-	GBP0.8	n/a	30/8/2016
	125,000	125,000	-	-	125,000	AUD \$0.80	23/6/2014	31/12/2018
Paul Barnes	125,000	125,000	-	-	125,000	AUD \$0.80	23/6/2014	31/12/2018

Directors' interests

The Directors' interests in shares and other securities in Etherstack plc are set out below:

Director	Number of ordinary Shares 31 December 2016	Number of ordinary Shares 31 December 2015	Number of options 31 December 2016	Number of options 31 December 2015	Number of convertible notes 31 December 2016	Number of convertible notes 31 December 2015
David Deacon	48,241,850	18,241,850	-	-	-	570,516
Peter Stephens	15,889,058	322,058	125,000	250,000	-	430,000
Paul Barnes	6,850,000	1,712,500	125,000	125,000	-	180,000
Scott Minehane	81,875	81,875	315,000	315,000	-	-

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Paul Barnes FCCA, Director

29 March 2017

Independent auditor's report to the members of Etherstack plc

Our opinion on the financial statements is unmodified

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in Note 1.4 to the financial statements concerning the Group's and the Parent Company's ability to continue as a going concern. The Group incurred a net loss of \$1.70m during the year ended 31 December 2016 and at that date the Group had net current liabilities of \$3.30m. These conditions, along with the other matters explained in note 1.4 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group or the Company was unable to continue as a going concern.

Who we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit 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 auditor's 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 audit work, for this report, or for the opinions we have formed.

What we have audited

Etherstack plc's financial statements for the year ended 31 December 2016 comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.



Overview of our audit approach

- Overall group materiality: \$175,000, which represents 5% of the Group's adjusted loss before taxation;
- We performed full scope audit procedures at Etherstack plc, Etherstack London Limited and Etherstack Pty Limited, and targeted audit procedures at Etherstack Inc and Auria Wireless Pty Limited; and
- Key audit risks were identified as capitalisation of development costs, impairment of intangible assets, revenue recognition and going concern.

Our assessment of risk

In arriving at our opinions set out in this report, we highlight the following risks that, in our judgement, had the greatest effect on our audit:

Audit risk

How we responded to the risk

Capitalisation of development costs

At the year end the group had \$5.09m of intangible assets (2015: \$6.29m) including \$4.69m (2015: \$5.74m) of capitalised development costs. During 2016 \$1.29m of internal costs were capitalised.

The Directors and Management assess each project according to International Accounting Standard (IAS) 38: Intangible Assets criteria throughout the project life. Judgement is required to determine whether criteria are met, in particular the future economic benefits that will be generated and the intention of the Group to complete development and use or sell it. These judgements are dependent on expectations of future events.

There is a risk that the costs capitalised do not meet the criteria for capitalisation in accordance with IAS 38. We therefore identified the capitalisation of development costs as a significant risk.

Our audit work included, but was not restricted to:

- assessment of Management's method for determining whether projects meet the recognition criteria for capitalisation under IAS 38;
- checking the mathematical accuracy of calculations;
- testing the amounts being capitalised to supporting information, including timesheets;
- reviewing Management's cash flow forecasts, including the evaluation of assumptions supporting the generation of future economic benefits from the capitalised costs; and
- discussing the projects capitalised with Management to determine that they relate to additional functionality.

The Group's accounting policy and related disclosures on capitalisation of development costs is shown in note 9.

Impairment of intangible fixed assets

At the year end the Group had \$5.09m of intangible assets (2015: \$6.29m) consisting of capitalised development costs, engineering software and customer contracts.

The Group is required to consider indicators for impairment in accordance with IAS 36: Impairment of Assets. The losses reported over previous years provides such an indicator, and a risk that the carrying value of these assets may be higher than the recoverable amount.

Our audit work included, but was not restricted to:

- consideration of the appropriateness of the methodology applied in assessment of impairment and the judgement applied in determining the CGUs of the business. In addition, we assessed the design and implementation of controls in respect of the impairment review process and considered the adequacy of disclosures made in the Financial Statements; and
- assessing the impairment models and value-in-use calculations by:

Audit risk

How we responded to the risk

The assessment of the impairment of the Group's intangible assets incorporated significant judgements in assumptions, such as timing and extent of future revenues, gross margin and discount rate used.

The Directors and Management consider that there is one cash generating unit (CGU) and so all intangibles are allocated to this CGU.

We therefore identified the impairment review of intangible fixed assets undertaken by Management as a significant risk.

- checking the mathematical accuracy of the impairment models;
- comparing forecast growth rates to supporting information;
- comparison of margins with historic margins generated;
- assessing the discount rate applied to future cash flows; and
- evaluating the information included in the impairment models through our knowledge of the business, gained through reviewing trading plans and discussions with Management.

The Group's accounting policy and related disclosures on impairment of intangibles is shown in note 9.

Revenue recognition

During 2016 the Group generated \$6.08m (2015: \$2.26m) of revenue.

The Group has revenue from four income streams; licence fees, support, royalties and grant income. Determining the amount of revenue to be recognised requires Management to make significant judgements around timing and extent of recognition - ensuring licence and royalty revenue is recognised in accordance with the terms of the contract and support revenue is recognised over the appropriate support contract period.

We therefore identified revenue recognition as a significant risk.

Our audit work included, but was not restricted to:

- consideration of the stated policies and whether these are consistent with IAS 18: Revenue for the current and prior period;
- verifying significant licence and royalty amounts to customer contracts and purchase orders;
- verifying revenue recognised and deferred for a sample of support contracts;
- testing the existence of a sample of debtor invoices outstanding at year end; and
- verifying grant receipts to supporting documentation.

The Group's accounting policy and related disclosures on revenue recognition is shown in note 2.

Going concern

The group generated a loss of \$1.70m during 2016 (2015: \$5.98m).

The Directors and Management prepare detailed cash flow forecasts and undertake sensitivity analysis over the timing of revenue to verify that the Group can operate as a going concern for at least 12 months from the date of approval of the financial statements.

There can be no certainty that revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast. In the event cash flow forecasts are not met, then this would place strain on cash reserves and the Group may become dependent upon mitigating actions to support ongoing operations. There is therefore a risk that the Group will be unable to continue as a going concern.

Our audit work included, but was not restricted to review of Management's going concern assumptions and supporting information. Forecasts and the model used were discussed with Management. The main procedures performed on the model and the areas where we challenged management were as follows:

- checking the mathematical accuracy of forecasts and models;
- testing the quality of management forecasting by comparing cash flow forecasts for prior periods to actual outcomes;
- verifying the consistency of forecasts used in the going concern assessment with those used for impairment calculations;
- testing the appropriateness of the assumptions that had the most material impact. In challenging these assumptions we took account of actual results, external data and previous periods;
 - agreeing the sources of liquidity and funds to supporting documentation; and

Audit risk

How we responded to the risk

-
- testing the appropriateness of the disclosures made in the Group financial statements in respect of going concern, in particular the assertion over mitigating actions to be taken by Directors in the event of a short term strain on cash resources.

The Group's accounting policy and related disclosures on going concern is shown in note 1.4.

Our application of materiality and an overview of the scope of our audit

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

We determined materiality for the audit of the Group financial statements as a whole to be \$175,000 which represents 5% of the Group's adjusted loss before taxation. Adjustment was made for the internal costs capitalised to reflect the underlying costs incurred by the business. This benchmark is considered appropriate because the trading result is a key performance measure used by the Board of Directors to report to investors on the financial performance of the Group and the adjustment represents underlying costs incurred.

Materiality for the current year is lower than the level that we determined for the year ended 31 December 2015 to reflect the lower adjusted loss before taxation for the year.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the group financial statements. We also determine a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.

We determined the threshold at which we will communicate misstatements to the audit committee to be \$8,750. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for Auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

Our audit approach was based on a thorough understanding of the Group's business and is risk based. We take into account the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed at each entity, which in particular included the following considerations:

- Etherstack plc has centralised processes and controls over the key areas of our audit focus. Group Management are responsible for all judgemental processes and significant risk areas. All accounting is centralised and we have tailored our audit response accordingly with all audit work being undertaken by the audit team. In assessing the risk of material misstatement to the Group financial statements we considered the transactions undertaken by each entity and therefore the required focus of our work;
- We performed full scope audits of the financial statements of the parent company Etherstack plc, Etherstack London Limited and Etherstack Pty Limited based on their materiality to the group. A targeted audit approach was undertaken for Etherstack Inc and Auria Wireless Pty Limited based on their size and due to the revenue recognised by each entity. The audit work completed focused on the risk areas for these entities; and
- Our audit approach in the current year is consistent with 2015 although in the prior year revenue across the group was lower.

Other reporting required by regulations

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on work undertaken in the course of the audit:

- The information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- The Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, on our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

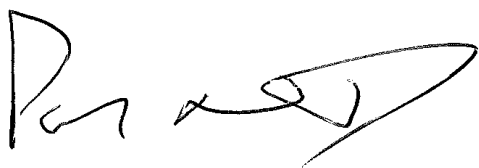
Responsibilities for the financial statements and the audit

What the directors are responsible for:

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

A handwritten signature in black ink, appearing to read 'Paul Naylor', with a stylized flourish at the end.

Paul Naylor
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
29 March 2017

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2016

		2016 \$'000	2015 \$'000
	Note		
Revenue	2,3	6,097	2,263
Cost of sales		(3,228)	(1,429)
Gross Profit		<u>2,869</u>	<u>834</u>
Other administrative expenses	4(a)	(4,786)	(4,901)
Foreign exchange gains/(losses)	4(a)	12	582
Impairment loss	4(b)	-	(2,094)
Debt subject to claim and legal fees	4(b)	-	(385)
Total administrative expenses		<u>(4,774)</u>	<u>(6,798)</u>
Group operating loss from continuing operations		(1,905)	(5,964)
Finance costs	7	(294)	(483)
Loss before taxation		<u>(2,199)</u>	<u>(6,447)</u>
Income tax benefit	8	502	468
Loss after taxation for the year attributable to the equity holders of the parent		<u>(1,697)</u>	<u>(5,979)</u>
Other comprehensive income			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		<u>(697)</u>	<u>19</u>
Total comprehensive loss for the year attributable to the equity holders of the parent		<u>(2,394)</u>	<u>(5,960)</u>
		Per share	Per share
Basic loss for the year (in cents)	20	(2.2)	(18.7)
Diluted loss for the year (in cents)	20	(2.2)	(18.7)

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Financial Position

as at 31 December 2016

		2016 \$'000	2015 \$'000
Non-current assets	Note		
Intangible assets	9	5,092	6,287
Property, plant and equipment	11	18	73
Trade and other receivables	13	100	150
		<u>5,210</u>	<u>6,510</u>
Current assets			
Inventories	12	275	482
Trade and other receivables	13	2,160	1,591
Cash and cash equivalents		236	51
		<u>2,671</u>	<u>2,124</u>
TOTAL ASSETS		<u>7,881</u>	<u>8,634</u>
Non-current liabilities			
Deferred tax liability	8(b)	133	128
Deferred revenue	15	47	180
		<u>180</u>	<u>308</u>
Current liabilities			
Trade and other payables	14(a)	4,022	4,322
Borrowings	14(b)	960	5,271
Current tax liabilities		173	145
Deferred revenue	15	814	558
		<u>6,149</u>	<u>10,604</u>
TOTAL LIABILITIES		<u>6,149</u>	<u>10,604</u>
NET ASSETS		<u>1,732</u>	<u>(1,970)</u>
Capital and reserves			
Share capital	17	645	205
Share premium account		7,742	2,282
Merger reserve		3,497	3,497
Share based payment reserve		609	413
Foreign currency translation reserve		(2,461)	(1,764)
Retained earnings		(8,300)	(6,603)
TOTAL EQUITY		<u>1,732</u>	<u>(1,970)</u>

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 29 March 2017.

Signed on behalf of the Board of Directors



Paul Barnes FCCA, Director

The accompanying notes form an integral part of the financial statements.

Company Statement of Financial Position

as at 31 December 2016

	Note	2016 \$'000	2015 \$'000
Non-current Assets			
Investments in subsidiaries	10	2,660	2,660
Trade and other receivables	13	5,209	-
		<u>7,869</u>	<u>2,660</u>
Current Assets			
Trade and other receivables	13	36	3,899
		<u>36</u>	<u>3,899</u>
TOTAL ASSETS		<u>7,905</u>	<u>6,559</u>
Current Liabilities			
Trade and other payables	14(a)	164	275
Borrowings	14(b)	614	3,710
		<u>778</u>	<u>3,985</u>
TOTAL LIABILITIES		<u>778</u>	<u>3,985</u>
NET ASSETS		<u>7,127</u>	<u>2,574</u>
Capital and reserves			
Share capital	17	645	205
Share premium account		7,742	2,282
Merger reserve		6,742	6,742
Foreign currency reserve		100	100
Share-based payment reserve		609	413
Retained earnings		(8,711)	(7,168)
		<u>7,127</u>	<u>2,574</u>
TOTAL EQUITY		<u>7,127</u>	<u>2,574</u>

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company, Etherstack plc, is not presented as part of the financial statements. The parent company's loss for the financial year was \$1,543 (2015 loss \$3,741).

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 29 March 2017.

Signed on behalf of the Board of Directors



Paul Barnes FCCA
Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

At 31 December 2016

	Share Capital	Share Premium Account	Merger Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2015	205	2,282	3,497	361	(1,783)	(624)	3,938
Loss for the year	-	-	-	-	-	(5,979)	(5,979)
Other comprehensive income	-	-	-	-	19	-	19
Total comprehensive income for the year	-	-	-	-	19	(5,979)	(5,960)
Share based payment charge	-	-	-	52	-	-	52
Transactions with owners	-	-	-	52	-	-	52
At 31 December 2015	205	2,282	3,497	413	(1,764)	(6,603)	(1,970)
Loss for the year	-	-	-	-	-	(1,697)	(1,697)
Other comprehensive income	-	-	-	-	(697)	-	(697)
Total comprehensive income for the year	-	-	-	-	(697)	(1,697)	(2,394)
Issue of Share Capital	440	5,460	-	-	-	-	5,900
Share based payment charge	-	-	-	196	-	-	196
Transactions with owners	440	5,460	-	196	-	-	6,096
At 31 December 2016	645	7,742	3,497	609	(2,461)	(8,300)	1,732

Company Statement of Changes in Equity

At 31 December 2016

	Share capital \$'000	Share premium account \$'000	Merger Reserve \$'000	Share based payment reserve \$'000	Foreign currency reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2015	205	2,282	6,742	361	100	(3,427)	6,263
Loss for the period	-	-	-	-	-	(3,741)	(3,741)
Total comprehensive income	-	-	-	-	-	(3,741)	(3,741)
Share based payment charge	-	-	-	52	-	-	52
Transactions with owners	-	-	-	52	-	-	52
At 31 December 2015	205	2,282	6,742	413	100	(7,168)	2,574
Loss for the period	-	-	-	-	-	(1,543)	(1,543)
Total comprehensive income	-	-	-	-	-	(1,543)	(1,543)
Issue of Share Capital	440	5,460	-	-	-	-	5,900
Share based payment charge	-	-	-	196	-	-	196
Transactions with owners	440	5,460	-	196	-	-	6,096
Balance at 31 December 2016	645	7,742	6,742	609	100	(8,711)	7,127

The accompanying notes form an integral part of the financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

		2016 \$'000	2015 \$'000
	Note		
Loss after tax		(1,697)	(5,979)
Adjustments for:			
Depreciation of property, plant and equipment	11	53	60
Amortisation of intangible assets	9	2,480	2,723
Impairment loss		-	2,094
Equity settled share based transactions		196	52
Dilapidation expense		(3)	-
Slow moving stock provision		200	-
Unrealised foreign exchange		(12)	(582)
Operating cash flows before movements in working capital		1,217	(1,632)
(Increase) in inventories		(30)	(303)
(increase)/Decrease in receivables		(705)	1,215
Increase in payables		160	589
(Decrease)/Increase in income tax payable		(12)	5
Increase in deferred revenue		123	255
Net cash flow from operating activities		753	(129)
Investing activities			
Purchases of intangible assets and development costs	9	(1,293)	(1,577)
Purchases of property, plant and equipment	11	-	(3)
Net cash flow used in investing activities		(1,293)	(1,580)
Financing activities			
Directors' loan advances		-	991
Directors' loan repayments		-	(27)
Proceeds on issue of shares		718	411
Net cash flow from financing activities		718	1,375
Net increase/(decrease) in cash and cash equivalents		178	(334)
Effect of foreign exchange rate changes		7	(58)
Cash and cash equivalents at 1 January		51	443
Cash and cash equivalents at 31 December		236	51

The accompanying notes form an integral part of the financial statements.

Company Statement of Cash Flows

For the year ended 31 December 2016

	2016 \$'000	2015 \$'000
Loss after tax	(1,543)	(3,741)
Adjustments for:		
Unrealised foreign exchange	-	(193)
Impairment loss	-	3,408
Share based payment reserve	196	-
	<hr/>	<hr/>
Cash before movements in working capital	(1,347)	(526)
(Decrease) in payables	(111)	(302)
(Increase)/Decrease in receivables	(18)	(7)
Decrease in intercompany receivable	1,476	442
	<hr/>	<hr/>
Net cash used in operating activities	-	(393)
	<hr/>	<hr/>
Financing activities		
Net cash from financing activities		
Proceeds on issue of convertible notes (Note 14)	-	411
(Decrease)/increase in loans	-	(24)
Proceeds from issue of shares	-	-
	<hr/>	<hr/>
Net cash from financing activities	-	387
	<hr/>	<hr/>
Net (decrease)/increase in cash and cash equivalents	-	(6)
Cash and cash equivalents at 1 January	-	6
Effect of foreign exchange rate changes	-	-
	<hr/>	<hr/>
Cash and cash equivalents at 31 December	-	-
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of the financial statements.

Notes to the Consolidated and Company Financial Statements

Section I: Basis of Accounting

Note 1: Basis of Accounting

Section II: Revenue and Expenses

Note 2: Revenue

Note 3: Segment information

Note 4: Group operating costs

Note 5-7: Expenses

Note 8: Taxation

Section III: Assets

Note 9: Intangible Assets

Note 10: Subsidiary undertakings

Note 11: Property Plant and Equipment

Note 12: Inventories

Note 13: Trade and other receivables

Section IV: Liabilities

Note 14: Financial Liabilities

Note 15: Deferred Revenue

Note 16: Financial Instruments

Section V: Share Capital

Note 17: Called up Capital

Note 18: Reserves

Note 19: Share based payments

Note 20: Loss per Share

Section VI: Other Notes

Note 21: Operating lease commitments

Note 22: Related party transactions

Note 23: Changes in accounting policy and disclosures

Notes to the Consolidated and Company Financial Statements

Section I: Basis of Accounting

1.1 General Information

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2016 were authorised for issue by the Board of Directors on 29 March 2016 and the Statement of Financial Position was signed on the Board's behalf by Mr Paul Barnes. Etherstack plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK share register cannot be traded on the ASX.

1.2 Basis of Preparation

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2016 and applied in accordance with the Companies Act 2006.

The Group financial statements are presented in US Dollar ("\$\$") which is the Group's presentational currency. The Group operates in international markets and the US Dollar provides the most comparable currency for peer companies.

All values are rounded to the nearest thousand dollars (\$000) except where otherwise indicated.

1.3 Basis of consolidation

The Group financial statements consolidate the financial statements of Etherstack plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

Control is achieved where the Group has the power to govern the financial and operating policies of a Group undertaking so as to obtain economic benefits from its activities. Subsidiary undertakings' results are adjusted, where appropriate, to conform to group accounting policies.

1.4 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. During the year, the Group incurred a loss after tax of \$1,697 (2015 loss of \$5,979) and is in a net current liability position as at 31 December 2016. As highlighted in the Strategic Report, the Group significantly increased revenues, in particular recurring revenues and generated positive underlying EBITDA of \$836 (2015: negative \$702).

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets to generate the cash flows set out in the business plan

The Directors have considered the financial performance of 2016, the strength of the sales pipeline, contracts in progress, royalty 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 certain mitigating actions that could be implemented to preserve cash if required. Additionally, 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 that these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and these material uncertainties may cast significant doubt over the ability of the Group and the Company to continue as a

Notes to the Consolidated and Company Financial Statements

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.

1.5 Foreign currency translation

US\$ has been adopted as the presentational currency in these financial statements. The Directors have considered the appropriate functional currency for each individual operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

1.6 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

- Capitalisation of development costs
- Impairment of intangible assets and investments
- Provision for slow moving inventory
- Assessment of the Group as a going concern

These judgements and estimates are further explained in the applicable notes.

1.7 Other Accounting Policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Notes to the Consolidated and Company Financial Statements

Section II: Revenue and Expenses

2. Revenue

	2016	2015
An analysis of the Group's revenue is as follows:	\$'000	\$'000
Licence fees, design, development and supply of wireless communications technology	4,854	1,520
Support services	719	427
Royalties	347	123
Grant receipts – research and development incentives	177	193
	6,097	2,263

Revenue recognition accounting policies

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Where a contract consists of multiple performance obligations, revenue is assigned to each specific performance obligation and recognised in accordance with the policies outlined below.

Licence fees and revenue from the sale of goods

Sales of goods include technology access licences, manufactured equipment sales, and white labelled equipment sales.

Revenue from the sale of goods is recognised upon the delivery of goods when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the buyer; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technology access licences revenues are recognised on the same basis as the sale of goods unless there are ongoing performance obligations associated with them. Revenue attributable to any ongoing performance obligation is recognised as the ongoing performance is fulfilled.

Rendering of services

Services include wireless technology design, customisation and integration services.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined based on the percentage of work that has been completed, measured through time and cost incurred and forecast to complete. At the balance sheet date, revenue is accrued or deferred as appropriate depending on the stage of contractual billings compared with the work performed to the balance sheet date.

Revenue from support contracts

Revenue from support contracts is recognised evenly over the period of the support contract on an accrual basis.

Notes to the Consolidated and Company Financial Statements

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

3. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive Officer, being the chief operating decision maker to allocate resources and to assess performance. The Group is operational in geographical locations including the United Kingdom, United States, Japan and Australia. The Group operates and reports as one business segment and is not analysed by management in either separate functions or geographical regions, as due to the nature of the work and complexity of the software, there is a large degree of collaboration and integration across the countries for any given project.

Geographical information

Revenue from external customers by region	2016 \$'000	2015 \$'000
Country/region of domicile		
North America	3,639	652
Australia and New Zealand	1,586	1,163
Japan	872	393
Other countries	-	55
	6,097	2,263
Non-current assets by region		
Country/region of domicile		
United Kingdom	4,778	5,683
North America	3	6
Australia and New Zealand	429	821
	5,210	6,510

Notes to the Consolidated and Company Financial Statements

Revenues from a single customer amounting to more than 10% of Group revenue	2016 \$'000	2015 \$'000
Customer A	2,174	949
Customer B	-	374
	2,174	1,323

Revenues from customers which do not amount to more than 10% of Group revenue in a particular period are not disclosed.

Revenues by Product Group

Networks	4,812	1,605
Protocols	697	408
Radio Frequency	393	57
Other	195	193
	6,097	2,263

4. Group operating loss

(a) This is stated after charging/(crediting):

	2016 \$'000	2015 \$'000
Depreciation of property, plant and machinery	53	60
Operating lease costs	441	534
Amortisation of intangible assets	2,480	2,723
Foreign exchange Gain/(loss)	12	(582)
Inventory costs charged to costs of sales	1,475	125

(b) This is also stated after charging the following items excluded from underlying profit or loss:

Impairment adjustment against intangible assets (Note 9)	-	2,094
Debt subject to claim and legal fees	-	385
Slow moving stock provision	200	-
	200	-

Notes to the Consolidated and Company Financial Statements

5. Auditor's remuneration

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group:

	2016 \$'000	2015 \$'000
Grant Thornton UK LLP		
Fees payable to the company auditors for the audit of the company's annual accounts	98	98
Fees payable to the company's auditors and its associates for other services		
Audit of the accounts of subsidiaries	30	30
Audit related assurance services	31	33
Tax compliance services	7	11
Tax advisory services	16	20
	182	192

6. Staff costs and Directors' emoluments

a) Staff costs	2016 \$'000	2015 \$'000
Wages and salaries	3,160	3,201
Social security costs	172	219
Pension costs	184	186
	3,516	3,606

\$196 share-based payments included in wages and salaries for the current year (2015: \$52).

The average monthly number of employees during the year was made up as follows:

	2016 Number	2015 Number
Executive Directors	1	1
Engineering	26	32
Management, sales & administrative	7	6
	34	39

Notes to the Consolidated and Company Financial Statements

	2016	2015
	\$'000	\$'000
b) Directors' emoluments		
Emoluments	361	376
Amounts paid to third parties	-	-
	<hr/> 361	<hr/> 376
Pension costs	<hr/> 5	<hr/> 5

Details of the highest paid director are included in the Remuneration Report.

	2016	2015
	Number	Number
The number of directors who are accruing benefits under:		
Defined contribution schemes	<hr/> 2	<hr/> 2

Employee benefits and retirement benefits - Accounting policies

Short-term employee benefits

The cost of short-term employee benefits, (those expected to be settled wholly within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits), are recognised in the period in which the service is rendered and are not discounted.

Long-term employee benefits

Liabilities for long service leave expected to be settled within the next 12 months are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities for long service leave expected to be settled more than 12 months from the balance date are also recognised in the provision for long service leave and consider expected employee service periods, and salary increases and are measured at a discounted amount based upon estimated settlement dates.

Employee benefit on-costs

A liability is also carried for on-costs, including payroll tax and other insurances, in respect of provisions for certain employee benefits which attract these costs.

Payments to defined contribution retirement benefit schemes

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

7. Finance Costs

	2016	2015
	\$'000	\$'000
Related party loans (see note 22)	66	113
Convertible Notes	167	362
Other interest	61	51
Revaluation of embedded derivative	-	(43)
	<hr/> 294	<hr/> 483

Notes to the Consolidated and Company Financial Statements

8. Taxation

	2016	2015
	\$'000	\$'000
(a) Tax (credited)/charged in the statement of comprehensive income.		
<i>Current income tax:</i>		
UK corporation tax and income tax	(557)	(455)
Foreign tax	55	913
	<hr/>	<hr/>
Current income tax benefit	(502)	(468)
Amounts (over)/under provided in previous years	-	-
	<hr/>	<hr/>
Tax (income)/expense in the statement of comprehensive income	(502)	(468)

	2016	2015
	\$'000	\$'000
<i>The tax (income)/expense in the statement of comprehensive income is disclosed as follows:</i>		
Income tax (income)/expense on continuing operations	(502)	(468)
	<hr/>	<hr/>

Reconciliation of the total tax (credit)/charge

The tax expense in the statement of comprehensive income for the year is higher than the standard rate of corporation tax in the UK of 20% (2015: 20%). The differences are reconciled below:

	2016	2015
	\$'000	\$'000
Loss before income tax	(2,199)	(6,447)
	<hr/>	<hr/>
Tax at the UK corporation tax rate of 20% (2015: 20%)	(440)	(1,289)
Expenses not deductible for tax purposes	20	10
Tax losses not recognised	(696)	(870)
Losses surrendered	641	1,733
Difference in overseas tax rates	(22)	(12)
Deferred tax liability	(5)	(40)
	<hr/>	<hr/>
Total tax (benefit)/expense reported in the statement of comprehensive income	(502)	(468)
	<hr/>	<hr/>

(b) Deferred tax liabilities/(assets)	1 January 2016	Recognised in Profit & Loss	31 December 2016
	\$'000	\$'000	\$'000
Deferred tax liability re customer contract intangible	128	5	133
Deferred tax asset re Employee benefit entitlements	(67)	(10)	(77)
	<hr/>	<hr/>	<hr/>
	61	(5)	56
	<hr/>	<hr/>	<hr/>

Notes to the Consolidated and Company Financial Statements

Accounting policies

The tax currently payable is based on taxable profit or loss for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all material taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

No deferred tax liabilities have been recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, as the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity or when it relates to items in other comprehensive income, in which case it is recognised in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group is subject to income and other tax in the UK, USA, Australia, Japan and other countries. Significant judgement is required in determining the provision for income and other taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. Deferred tax assets are recognised relating to tax losses to the extent that it is probable future taxable profits will arise in that jurisdiction.

Unrecognised tax losses

The Group has tax losses which arose in the United Kingdom of \$6,076 (2015 \$4,943) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of losses carried forward as it is not considered probable that these will reverse in the near future. No deferred tax liability is recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences.

Notes to the Consolidated and Company Financial Statements

SECTION III: ASSETS

9. Intangible assets (Group)

	Capitalised development costs \$000	Engineering software \$000	Customer contract intangible \$000	Goodwill \$000	Total \$000
Cost					
At 1 January 2015	14,779	697	900	353	16,729
Additions	1,577	-	-	-	1,577
Exchange differences	-	-	(95)	-	(95)
At 31 December 2015	16,356	697	805	353	18,211
Additions	1,293			-	1,293
Exchange differences			(8)	-	(8)
At 31 December 2016	17,649	697	797	353	19,496
Accumulated amortisation					
1 January 2015	6,273	505	329	-	7,107
Charge for the year	2,604	71	48	-	2,723
Impairment loss	1,741	-	-	353	2,094
At 31 December 2015	10,618	576	377	353	11,924
At 1 January 2016	10,618	576	377	353	11,924
Charge for the year	2,337	42	101	-	2,480
At 31 December 2016	12,955	618	478	353	14,404
Carrying amount					
At 31 December 2016	4,694	79	319	-	5,092
At 31 December 2015	5,738	121	428	-	6,287

Intangible assets accounting policies

Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets, Acquired customer relationship assets, goodwill and engineering software.

Notes to the Consolidated and Company Financial Statements

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's intellectual property development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Group intends to complete the asset and use or sell it;
- the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- it is probable that the asset created will generate future economic benefits; and
- the development cost of the asset can be measured reliably.

These criteria are assessed on a project by project basis from the outset and continuing through to project completion. This assessment requires management judgement to determine whether the criteria are met, which is often reliant on expectations of future events.

Internally-generated intangible assets have a finite useful life, and are amortised on a straight-line basis over that useful life, determined as the shorter of 6 years or the estimated delivery model. Amortisation of the asset begins when development is complete and the asset is available for use, such that it can be deployed to customers. During the period of development, the asset is tested for impairment annually.

Acquired Customer relationships

Intangible assets classified as customer relationships are recognised when acquired as part of a business combination and are measured initially at fair value. Customer relationships are amortised on a straight line basis over the estimated period over which benefits are derived from the Acquired Customer Relationship. For the purpose of impairment testing, Acquired Customer Relationship assets are allocated to a cash-generating unit.

In prior periods, the intangible asset represented by Acquired Customer relationships was amortised based on the pattern of expected economic benefits derived from the acquired customer contracts. In the current year there is a change in an accounting estimate, with amortisation of the intangible asset represented by acquired Customer relationships now done on a straight line basis over the 5.5 year period from 1 January 2016 to 30 June 2021.

The impact of the change to the accounting estimate underlying the amortisation calculation is to increase the amortisation charge in the year and decrease the net book value of the assets by \$59.

Business combinations and goodwill

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

Engineering software

Purchased engineering software (including licences) is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over 5 years from the date the software is installed. The asset is tested for impairment where there are indicators of impairment.

Notes to the Consolidated and Company Financial Statements

Impairment Testing of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Except where there is an impairment of Goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairments of goodwill are not reversed.

As part of the impairment testing at each balance sheet date, the Group assesses the number of cash-generating units in operation. This assessment is based upon how management monitors operations and makes decisions about continuing or disposing of assets and operations. In 2016, all assets have been considered to be part of one cash-generating unit (2015 one cash-generating unit).

Intangible Assets: Significant judgements

Capitalisation and recoverability of Development costs

During the year, the Group recognised internally-generated intangible assets totalling \$1,293 (2015 \$1,577). Significant judgement is required in assessing whether development costs met the conditions for capitalisation as set out in the Group's accounting policy.

Impairment Testing

The Group performed its impairment test as at reporting date. The Group considers the relationship between its market capitalisation and its book value, and the intentions to proceed with planned and in progress developments amongst other factors when reviewing for indicators of impairment. The Board of Directors and Management have reviewed the intellectual property portfolio and goodwill in the context of the reshaped business following a significant decline in revenues and a consequential loss in 2014 and 2015, and the Group's 2015 and 2016 focus on a smaller number of higher return developments.

The outcome of this 2016 review is a \$nil impairment adjustment. The outcome of the 2015 review was a \$2,094 impairment adjustment comprising \$1,741 which has been recognised against Capitalised development costs assets where the assets no longer meet the criteria for continued recognition and \$353 against goodwill. This impairment adjustment was recognised as an expense in the 31 December 2015 financial statements.

Following the impairment of assets, if any, which no longer satisfy criteria for continued recognition, the remaining value of intangible assets in the CGU is reviewed for impairment. The recoverable amount of the CGU has been determined based on a value in use calculation using cashflow projections from detailed financial forecasts prepared by management extrapolated to cover a 6 year period. The outcome of this review was that no impairment adjustment was required.

Notes to the Consolidated and Company Financial Statements

The key assumptions are:

- Growth rate of nil is assumed in the financial models. Revenues have grown significantly in the current year over 2015 and the expectation is for positive growth over the medium and longer term however noting that revenues are volatile for the company and throughout the industry and in the interests of producing a conservative model an assumption of no growth has been made and cashflows beyond 6 years have been excluded.
- Constant gross margins have been assumed. No efficiency or productivity improvements have been built into the projections.
- Pre-tax discount rate of 20%.

Management has considered the sensitivity of the value in use calculation to changes in assumptions in particular changes to the discount rate. A 1% increase in the assumed discount rate creates a \$156 decrease in the value in use. There is no additional impairment required by a 1% change in the assumed discount rate.

The review of recoverability encompasses consideration of the expected cash flows and margins to be generated by these assets and the expected period over which future benefits are likely to be derived. The outcome of the review supports the expectation that future revenues and profits will be derived from the intellectual property assets developed by the Group.

Expected revenues and margins generated by these assets will continue to be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

10. Subsidiary undertakings	Company 2016 \$000	Company 2015 \$000
Subsidiary undertakings at cost	7,311	7,311
Less impairment provision	(4,651)	(4,651)
	2,660	2,660

The Company's investments at 31 December 2016 in the share capital of other companies comprises:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack London Limited	100%	Ordinary	England and Wales
Indian Pacific Nederland BV *	100%	Ordinary	Netherlands
Etherstack Inc.*	100%	Ordinary	USA
Etherstack Pty Limited *	100%	Ordinary	Australia
Auria Wireless Pty Limited*	100%	Ordinary	Australia
Etherstack Japan Limited *	100%	Ordinary	Japan
Etherstack Pte Limited *	100%	Ordinary	Singapore

* These companies are owned via another Group entity, with Etherstack plc the ultimate parent company of the Group.

All of the companies in the Group develop and sell wireless software communications products.

Notes to the Consolidated and Company Financial Statements

Subsidiary accounting policies:

Investments in subsidiaries

Investments are carried at their historic cost, and are reviewed annually for impairment. Any impairment losses are booked in the year that they arise.

Subsidiaries are consolidated from the date of their acquisition. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-Group balances and transactions, including unrealised profits arising from them, are eliminated in full.

Significant judgement: Impairment adjustment

As at 31 December 2016 an impairment adjustment of \$nil (2015 \$4,651) has been recognised. Etherstack plc is a holding company and the listed vehicle within the group. Operating subsidiary companies have incurred losses requiring Etherstack plc as the parent company to review the carrying value of the investments in these operating subsidiaries. The outcome of this review is an impairment adjustment of \$nil (2015 \$4,651) which reduces the carrying amount of the investment to the amount supported by the CGU analysis prepared for assessing the recoverable amount of the intangible assets.

11. Property, plant and equipment

Group	Leasehold property improvements \$'000	Furniture and equipment \$'000	Computer equipment \$'000	Total \$'000
Cost				
At 1 January 2015	243	347	726	1,316
Additions	-	-	3	3
Exchange differences	-	-	-	-
At 31 December 2015	243	347	729	1,319
Additions	-	-	-	-
Exchange differences	-	-	-	-
At 31 December 2016	243	347	729	1,319
Accumulated depreciation				
At 1 January 2015	184	275	720	1,179
Charge for the year	18	35	7	60
Exchange differences	3	4	-	7
At 31 December 2015	205	314	727	1,246
Charge for the year	24	27	2	53
Exchange differences	-	2	-	2
At 31 December 2016	229	343	729	1,301
Carrying amount				
At 31 December 2016	14	4	-	18
At 31 December 2015	38	33	2	73

Notes to the Consolidated and Company Financial Statements

Accounting policy:

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	over 5 years (or the length of the lease, whichever is shorter)
Computer equipment	over 3 years
Furniture and equipment	over 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

12. Inventories

	2016 \$'000	2015 \$'000
Work in Progress	475	482
Slow moving stock provision	(200)	-
	<u>275</u>	<u>482</u>

Accounting policy

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Significant judgement: Slow Moving stock provision

As at 31 December 2016 a slow moving stock provision of \$200 (2015 \$nil) has been recognised.

This stems from the inventory acquired as part of the settlement of a commercial dispute which gave rise to the 2015 expense described as Debt subject to claim and legal fees. While the inventory remains current and saleable, in the absence of sales to date, the Group has provided in full against this inventory.

13. Trade and other receivables

	Group		Company	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Current				
Trade debtors	1,068	422	25	4
Accrued Income from contracts in progress	107	94	-	-
Amounts receivable from Group undertakings	-	-	-	3,881
Other debtors	583	609	11	14
Research and development incentives	402	466	-	-
	<u>2,160</u>	<u>1,591</u>	<u>36</u>	<u>3,899</u>
Non-current				
Amounts receivable from Group undertakings	-	-	5,209	-
Accrued income from contracts in progress	100	150	-	-
	<u>100</u>	<u>150</u>	<u>5,209</u>	<u>-</u>

Notes to the Consolidated and Company Financial Statements

Ageing of past due but not impaired receivables	2016	2015
	\$'000	\$'000
30-60 days	8	30
60-90 days	-	58
90-120 days	40	18
Total	48	106

The directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

Accounting policy

Accrued income from contracts in progress represents unbilled fees and licence income derived from projects and contracts in progress at the end of the period. Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

The average credit period taken on sales of goods is 64 days (2015: 68). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate, an allowance for doubtful debts.

Due to the nature of the Group's business, potential customers tend to be well-funded international companies of sound credit status. Before accepting a new customer, the Group assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project. There are 3 (2015: 5) customers who each represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

Notes to the Consolidated and Company Financial Statements

SECTION IV: LIABILITIES

14. Financial Liabilities

	Group		Company	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
(a) Trade and other payables				
Current				
Trade payables and accruals	1,476	1,902	33	118
Other payables	1,363	1,376	131	157
Other taxes and social security costs	1,183	1,044	-	-
	4,022	4,322	164	275
(b) Borrowings				
Current				
Convertible notes at amortised cost	-	3,095	-	3,095
Embedded derivative at fair value	-	48	-	48
Other loans	960	2,128	614	567
	960	5,271	614	3,710

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 60 days (2015: 79). For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates.

The directors consider that the carrying amount of trade and other payables approximates their fair value.

The embedded derivative relates to the conversion rights attached to the convertible notes.

Convertible notes

There are no Convertible notes outstanding at 31 December 2016.

At 31 December 2015, there were 3,860,000 convertible notes on issue. Each note had a nominal value of AUD\$1.00 and was redeemable at the option of the Company or the holder within the first 12 months of issue if mutual consent is given, and after this time at the option of the Company.

Tranche 1 of the notes comprising 3,000,000 notes were Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 day's notice) on the basis of one ordinary share for every AUD\$1.75 nominal of notes held.

Tranche 2 of the notes comprising 500,000 notes were Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 days' notice) on the basis of one ordinary share for every AUD\$1.20 nominal of notes held.

Any notes not converted will be redeemed on 31 December 2016 at a price of AUD\$1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

In July 2014 the Company issued 540,000 convertible notes which formed Tranche 3. Each note had a nominal value of AUD\$1.00 and may be converted into fully paid ordinary shares for each AUD\$0.40 of nominal note held. The notes have maturity dates between 31 January 2015 and 31 January 2016. The convertible notes carried an interest rate of 8% per annum.

Other loans

Information on other loans is set out in Note 22, Related Party Transactions.

Notes to the Consolidated and Company Financial Statements

15. Deferred Revenue

	Group	
	2016	2015
	\$'000	\$'000
At 1 January	738	483
Deferred during the year	3,276	815
Released to the income statement during the year	(3,153)	(560)
	<hr/>	<hr/>
At 31 December	861	738
	<hr/>	<hr/>
Current	814	558
	<hr/>	<hr/>
Non-current	47	180
	<hr/>	<hr/>

16. Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised and subsequently measured based on their classification at either amortised cost or fair value through the profit and loss.

Loans and receivables

Cash, trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. The Group's loans and receivables comprise of trade and other receivables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and fixed-term deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash. These are initially and subsequently recorded at fair value.

Convertible notes

Convertible notes include an equity conversion right which is an embedded derivative. The embedded derivative is recorded separately and measured at fair value through profit and loss while the Convertible notes are recognised as a financial liability of the Group and measured at amortised cost.

Other financial liabilities

Other financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Group has funded itself through share issues, convertible note issues and cash generation from the business. The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained profits as disclosed in notes 17 and 18 and the Statement of Changes in Equity.

Notes to the Consolidated and Company Financial Statements

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements

Fair Value Hierarchy

There are no financial liabilities measured at fair value at 31 December 2016 (2015: one financial liability). The 2015 financial liability represented the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is \$nil (2015 \$48) and the valuation is categorised as Level 3 – Valuation technique.

Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Loans and receivables measured at amortised cost				
Cash and cash equivalents	236	51	-	-
Trade and other receivables	1,275	666	5,245	3,899
	<u>1,511</u>	<u>717</u>	<u>5,245</u>	<u>3,899</u>
Financial liabilities at amortised cost				
Convertible note at amortised cost	-	3,095	-	3,095
Current borrowings at amortised cost	960	2,128	614	567
Trade and other payables	2,839	3,278	164	275
	<u>3,799</u>	<u>8,501</u>	<u>778</u>	<u>3,937</u>
Financial liabilities at Fair value through profit and loss (FVTPL)				
Embedded derivative at FVTPL	-	48	-	48

Notes to the Consolidated and Company Financial Statements

The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on undiscounted payments:

Group: Year ended 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	-	1,476	-	-	-	1,476
Related party loans	-	-	960	-	-	960
Other payables	-	1,363	-	-	-	1,363
	-	2,839	960	-	-	3,799

Group: Year ended 31 December 2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	-	1,902	-	-	-	1,902
Related party loans	-	-	2,128	-	-	2,128
Other payables	-	1,376	-	-	-	1,376
Convertible notes	-	-	3,095	-	-	3,095
	-	3,278	5,223	-	-	8,501

Company: Year ended 31 December 2016	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	-	164	-	-	-	164
Related party loans	-	-	614	-	-	614
	-	164	614	-	-	778

Company: Year ended 31 December 2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	-	275	-	-	-	275
Related party loans	-	-	567	-	-	567
Convertible notes	-	-	3,095	-	-	3,095
	-	275	3,662	-	-	3,937

Group and Company Financial risk management objectives

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk evaluations which analyse exposure by degree and magnitude of risks. These risks include market risk, including currency risk, credit risk and liquidity risk.

Notes to the Consolidated and Company Financial Statements

The Group may use derivative financial instruments to hedge these risk exposures although no derivatives were used in 2016 (2015 \$nil). The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

A sensitivity analysis has been prepared for foreign currency exchange rates in the foreign currency risk section.

Credit risk management

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December, as summarised below:

	2016	2015
	\$'000	\$'000
Trade and other receivables - Current (note 13)	2,160	1,591
- Non-current (note 13)	100	150
Cash and cash equivalents	236	51
	2,496	1,792

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking (cash) facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Foreign currency risk

The Group operates in the United Kingdom, continental Europe, North America, Australia, Japan and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The Group and Company also has trade and other receivables and trade and other payables that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

Notes to the Consolidated and Company Financial Statements

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. No hedging transactions were entered into in 2016 (2015 \$nil).

The Group's and Company's currency exposure is as follows:

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Pound sterling, Australian dollar and Japanese Yen exchange rates, with all other variables held constant for the Group and sensitivity to a reasonably possible change in the Australian dollar with all other variables held constant for the Company. The impact on the Group's and the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's and Company's exposure to foreign currency changes for all other currencies is not considered material.

	Change in GBP rate	Group	Effect on	Company	Effect on
		Effect on (loss)/profit before tax \$'000	equity \$'000	Effect on (loss)/profit before tax \$'000	equity \$'000
2016	+10%	(240)	(185)	(8)	(8)
	+10%	240	185	8	8
2015	+10%	(246)	(200)	(17)	(17)
	-10%	246	200	17	17

	Change in AUD rate	Effect on	Effect on	Effect on	Effect on
		(loss)/profit before tax \$'000	equity \$'000	(loss)/profit before tax \$'000	equity \$'000
2016	+10%	(99)	(146)	(43)	(43)
	-10%	99	146	43	43
2015	+10%	(106)	(166)	(29)	(29)
	-10%	106	166	29	29

	Change in JPY rate	Effect on	Effect on
		(loss)/profit before tax \$'000	equity \$'000
2016	+10%	3	45
	-10%	(3)	(45)
2015	+10%	3	41
	-10%	89	(41)

Notes to the Consolidated and Company Financial Statements

SECTION V: SHARE CAPITAL

17. Called up share capital

	Company	
	2016	2015
	\$'000	\$'000
Issued, allotted and fully paid		
111,685,313 (2015: 31,980,784) ordinary shares of 0.4p each	645	205

During the year there were 2 share issues, both part of the Entitlements Issue:

- On 4 May 2016, 40,877,859 shares were issued to eligible shareholders participating in the Entitlements Issue.
- On 10 July 2016, a further 38,826,670 fully paid shares were issued as part of the shortfall offer component of the Entitlements Issue.

There were no share issues in 2015.

The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to a vote at Shareholder meetings, rights to dividends and a right to participate in any surplus on the winding up of the Company.

18. Reserves

Details of movements in reserves are included in the Consolidated and Company Statements of changes in equity respectively.

Merger Reserve

A merger reserve was originally created upon the acquisition of a commonly controlled entity in 2006 and increased as part of the Group reorganisation on 19 March 2012.

Share Premium Account

The share premium account is used to record the premium of the issue price for new issues of shares over the par value of those shares. The share premium account also records the costs directly attributable to the issue of new shares.

Foreign currency translation reserve

The Group foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. The company foreign currency translation reserve was created as part of the Group re organisation on 19 March 2012.

Notes to the Consolidated and Company Financial Statements

19. Share based payments

The Group has an equity settled share option scheme. Details of the share options outstanding during the year are as follows:

	Number of share options	2016 Weighted average exercise price (AUD)	Number of share options	2015 Weighted average exercise price (AUD)
Outstanding at beginning of year	1,660,750	0.90	1,942,000	0.98
Granted during the year	3,000,000	0.10	-	-
Forfeited during the year	(193,250)	1.38	(281,250)	1.26
Exercised during the year	-	-	-	-
	<u>4,467,500</u>	<u>0.36</u>	<u>1,660,750</u>	<u>0.90</u>
Outstanding at the end of the year	4,467,500	0.36	1,660,750	0.90
Exercisable at the end of the year	4,367,500	0.36	1,660,750	0.90

During the year, nil (2015 Nil) options were exercised.

There were 3,000,000 options issued on 10 August 2016. 2,900,000 of these options were fully vested, have an exercise price of AUD\$0.10 and expire on 10 August 2026.

The options outstanding at 31 December 2016 had a weighted average exercise price of AUD 0.36 (2015 AUD 0.90), and a weighted average remaining contractual life of 7.1 years (2015: 3.0 years).

The inputs into the Black-Scholes option pricing model are as follows:

	2016	2015
Weighted average share price	AUD 0.10	N/A
Weighted average exercise price	AUD 0.10	N/A
Expected volatility	27%	N/A
Expected life	10 years	N/A
Risk-free rate	4%	N/A
Expected dividend yields	0%	N/A

Expected volatility was determined by calculating the historical volatility of the Group's share price. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The Group recognized total expenses of \$196 (2015 \$52) relating to equity-settled share-based payment transactions.

Share-based payments accounting policy

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Notes to the Consolidated and Company Financial Statements

20. Loss per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (before deducting interest on the convertible shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2016		2015	
Reconciliation of earnings used in the calculation of earnings per share	Basic \$'000	Diluted \$'000	Basic \$'000	Diluted \$'000
Net loss attributable to equity holders of the parent for basic earnings	(1,697)	(1,697)	(5,979)	(5,979)
Net loss attributable to equity holders of the parent adjusted for the effect of dilution	(1,697)	(1,697)	(5,979)	(5,979)
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	77,688	77,688	31,981	31,981
Options*	-	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	77,688	77,688	31,981	31,981
Loss per share (cents)	(2.2)	(2.2)	(18.7)	(18.7)

* options have been excluded from the calculation of diluted earnings per share because they are anti-dilutive for 2016 and 2015.

There are no ordinary share transactions or potential ordinary share transactions occurring after the reporting period but before the financial statements are authorized for issue that would significantly change the ordinary shares or potential ordinary shares outstanding if those transactions had occurred before the end of the reporting period.

Notes to the Consolidated and Company Financial Statements

Section VI: Other Notes

21. Operating lease commitments

	2016 Land and buildings \$'000	2015 Land and buildings \$'000
Minimum lease payments under operating leases Recognised as an expense in the year	441	534

At 31 December 2016 the Group had total commitments under non-cancellable operating leases as set out below:

	2016 Land and buildings \$'000	2015 Land and buildings \$'000
Operating lease payments		
Within 1 year	40	202
In the second to fifth years inclusive	-	30
	40	232

Operating lease accounting policy

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

22. 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.

Remuneration of key management personnel

The remuneration of the Directors, plus the Chief Operating Officer and Chief Financial Officer, who are the key management personnel of the Group and the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2016 \$'000	2015 \$'000
Short-term employee benefits	690	722
Share based payments charge	68	7
Post-employment benefits (defined contribution schemes)	36	38
	794	767

Notes to the Consolidated and Company Financial Statements

Loans to/ from related parties

The Company has provided its subsidiaries with loans at 5% (2015 \$nil) interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of \$5,295 (2015 \$3,881) was receivable. From time to time, operating expenses of Etherstack plc are settled by Group companies and the cost passed back to Etherstack plc. During the year \$511 (2015 \$333) of operating expenses were paid for by Group companies.

Directors and Director-related entities

David Deacon, a Director of the Company, is owed \$188 by the Group at 31 December 2016 (2015: \$1,032). During the year, net advances of \$9 were made to the company and interest of \$47 was accrued. In addition, the amount due was reduced by offset of amounts due to the Company in connection with the take up of David Deacons' entitlements under the Entitlements offer. David Deacon acquired 30,000,000 fully paid shares for consideration of AUD\$3 million. This loan is unsecured, bears interest at arms-length rates and has no set terms of repayment.

In addition, an entity related to David Deacon had advanced a loan to the group and at 2015 year end this totalled to \$595. This loan was settled in full in 2016 through application against amounts due to the company in connection with the take up of David Deacons' entitlements under the Entitlements offer noted above.

During 2016, Peter Stephens, a Director of the Company, advanced \$492 (2015 \$845) to the Company. Interest of \$51 was accrued during the year. Peter Stephens participated in the Entitlements issue and shortfall offer and acquired 15,495,000 fully paid shares for consideration of AUD\$1,549,000. This amount was offset against amounts owing. At the end of the period, including the accrued wages noted below, \$492 was owing to Peter Stephens. These loans are unsecured and bear interest at arm's length rates.

During 2016, Paul Barnes, a Director of the Company advanced \$nil (2015 \$119) to the Company. Interest of \$7 was accrued during the year. Paul Barnes participated in the Entitlements issue and acquired 5,137,500 fully paid shares for consideration of AUD\$513,750. This amount was offset against amounts owing. At the end of the period, including the accrued wages noted below, \$158 was owing to Paul Barnes. These loans are unsecured and bear interest at arm's length rates.

At 31 December 2016, the following amounts of non-executive director service fees were payable to Directors of the company: Peter Stephens \$132 (2015: \$116), Paul Barnes \$147 (2015: \$130) and Scott Minehane \$nil (2015: \$15). These are unsecured; interest free and not subject to specific repayment terms.

Other Related Parties

Beach Street Limited is a Director related entity as Paul Barnes is a Director and shareholder. At year end \$nil (2015 \$10) was owing to Beach Street Limited.

Noon and Co is a Director related entity as Peter Stephens is a Director and shareholder. At year end \$nil (2015 \$12) was owing to Noon and Co.

Notes to the Consolidated and Company Financial Statements**23. Changes in accounting policy and disclosures**

The Group has not adopted any new standards or amendments that have a significant impact on the Group's results or financial position.

Standards and interpretations issued but not yet applied

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2016 are:

- IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 16 Leases (IASB effective date 1 January 2019)

The impact of IFRS 9, IFRS 15 and IFRS 16 is currently being evaluated. The Group does not intend to apply any of these pronouncements early.

ASX Additional information

Shareholdings

The issued capital of the Company as at 13 March 2017 is 111,685,313 fully paid ordinary shares.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

Ordinary Shares

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	4	1,642	0.00%
1,001 – 5,000	365	602,315	0.54%
5,001 – 10,000	31	245,861	0.22%
10,001 – 100,000	56	1,826,906	1.64%
100,001 and over	37	109,008,589	97.60%
Total	493	111,685,313	100.00%

As at 13 March 2017 there were 314 shareholders holding less than a marketable parcel of AUD \$500.

Substantial shareholders as at 13 March 2017

As at 13 March 2017 there were four shareholders who held a substantial shareholding within the meaning of the Corporations Act. A person has a substantial holding if the total votes that they or their associates have relevant interests in is five per cent or more of the total number of votes.

	No of shares	% of issued capital
MR DAVID DEACON	48,241,850	43.2%
MR PETER STEPHENS	15,889,058	14.2%
LYNTON PROPERTIES PTY LIMITED	9,080,000	8.1%
MR PAUL BARNES	6,850,000	6.1%
	80,060,908	71.60%

ASX Additional information

Top 20 shareholders as at 13 March 2017

		No of shares	% of issued capital
1	MR DAVID DEACON	48,241,850	43.2%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,485,706	17.4%
3	LYNTON PROPERTIES PTY LIMITED	7,500,000	6.7%
4	MR PAUL BARNES	6,850,000	6.1%
5	LACHMAC PTY LIMITED	5,000,000	4.5%
6	VERONICA STEPHENS	3,500,000	3.1%
7	MR BILL EASON	3,050,000	2.7%
8	MR ANDREW SCOTT	2,056,670	1.8%
9	GIGA PALACE LIMITED	1,909,994	1.7%
10	IN-Q-TEL INC	998,675	0.9%
11	MR JEREMY JON DAVIES	959,000	0.9%
12	JOHN DEACON	950,000	0.9%
13	RIDGEPORT HOLDINGS PTY LTD	827,000	0.7%
14	RT HON JAMES NETHERTHORPE	787,500	0.7%
15	CITICORP NOMINEES PTY LIMITED	574,342	0.5%
16	MR ADAM RICHARDS	563,500	0.5%
17	MR EVAN SCOTT	562,500	0.5%
18	MR DOUGLAS CHAPMAN	502,750	0.5%
19	MR PETER SQUIRES <P&MSFT A/C>	498,088	0.4%
20	ISIGN THIS LTD	410,000	0.4%
	TOTAL	105,227,575	94.2%

Limitations on the Acquisition of Securities

Etherstack plc is subject to the City Code on Takeovers and Mergers (the Code) as a public company incorporated in England and Wales.

Australian law similarly permits compulsory acquisition by persons holding a 90% interest in the relevant securities.

Etherstack plc is not subject to the provisions of the Corporations Act relating to changes in control and takeover of public companies.