Etherstack plc
and controlled entities

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2019

ARBN 156 640 532	Previous Corresponding Period: Half Year ended on 30 June 2018

Results for Announcement to the market				USD$'000
Revenue from ordinary activities	decreased	8.5%	to	1,718
Revenue from ordinary activities and other income	decreased	7.7%	to	1,782
Loss from ordinary activities after tax attributable to members	increased	5.1%	to	(884)
Net loss attributable to members	increased	5.1%	to	(884)

Dividends

There were no dividends declared or paid during the period (30 June 2018: nil) and the Directors do not recommend any dividend be paid.

Net tangible assets/(liabilities) per share	**30 June 2019 US cents**	**30 June 2018 US cents**
Net tangible assets/(liabilities) per share	(4.0)	(4.0)

Explanation of Results

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

The interim financial report for the half year ended 30 June 2019 dated 27 August 2019, forms part of and should be read in conjunction with this Half Year Report (Appendix 4D). The unaudited condensed consolidated financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

David Deacon, Director
27 August 2019

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2019

CONTENTS

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

DIRECTORS' REPORT

The directors present the condensed consolidated interim financial report of Etherstack plc ("the Company" or "Etherstack") and its controlled entities (together referred to as "the Group") for the half year ended 30 June 2019. All amounts are in thousands of USD, unless otherwise specified.

Directors

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

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

2019 First half Highlights

- 8.5% decrease in revenue to $1,718 compared to first half of 2018. This was driven by:
  - 17.5% growth in recurring long term support revenue streams relative to first half of 2018. This follows 32% growth in 2018 over 2017 support revenues
  - Project and product revenue growth of 40% during first half of 2018 was not sustained in 2019.
- Loss after tax increased from $841 in the first half of 2018 to $884.
- New "anchor" wins with Government customers in United States and Australia.
- Operating cash flow inflow of $919 in the first half compared to an inflow of $865 in first half of 2018.

Principal activities

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

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

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

Etherstack seeks to differentiate our Network offerings by:

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

DIRECTORS' REPORT Continued

Etherstack seeks to differentiate our Specialised Radio Product offerings by:

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

Review of operations and financial results

The half year includes several important contract wins. The value of these wins is realised through the initial contract value but also more importantly through the opportunity for these transactions to be "anchor sales" with new government clients in the US and Australia.

- The Company's US subsidiary, Etherstack Inc. was awarded a contract to supply a new P25 digital radio network for public safety and emergency services personnel in the State of Idaho. The network will be the 3rd public safety network deployed by Etherstack in the State of Idaho. Previous networks include the 5-County Emergency Services Network (ESN) as well as the Naval Reactor Facility at the Idaho National Laboratory.
- Etherstack Inc. has received its first order for APCO P25 network equipment from the US State Department. The award represents the sixth US federal agency to purchase Etherstack P25 network products for use in public safety applications, including the Department of Justice, Department of Interior and Department of Homeland Security.
- Etherstack's Australian subsidiary was also recently awarded a supply contract with an Australian state police force. Multiple Australian federal government departments and state-based emergency services organisations already use Auria digital radio systems and equipment.

Revenues for the half year are $1,718 which is a decrease of $160 or 8.5% from the prior half year. Loss after tax increased from $841 in the first half of 2018 to $884, a movement of $43 or 5.1%.

The revenue decrease is due to:

- Support revenue for first half of 2019 grew 17.5% to $639 compared to $544 revenue for the first half of 2018. This is attributable to growth in Etherstack's installed support client base in particular from the network projects commissioned in 2017 and 2018 and follows 32% growth in these revenues in the first half of 2018. Growth in support revenues is particularly important as these revenues are not subject to the same volatility or timing risk as project revenues.

- Increased royalty revenues: royalty revenues for first half of 2019 are $135 compared to $89 for the first half of 2018 representing a 52% increase. The movement is due to increased sales achieved by licensed manufacturers

- Reduced level of project activity in the first half of 2019 relative to the first half of 2018 resulting in project revenues of $944 compared to $1,245 for the first half of 2018, a 24% decrease which follows a 40% increase in 2018 over 2017. The nature of the Etherstack business means project revenues are driven by a small number of large contracts and may be volatile depending upon project activity within a particular period.

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

DIRECTORS' REPORT Continued

- Costs of sales comprises labour and material costs; these costs have decreased from $806 to $737 due to decrease in revenues.

- Administrative costs have decreased from $2,029 to $1,944 a decrease of $85 representing 4.2%.The decrease is mainly related to a reduction in the amortisation of intangible assets.

- Finance costs during the current reporting period were $156 (2018 $160) comprising an interest charge and other finance costs of $146 and an embedded derivative revaluation charge at the end of first half 2019 of $10 (2018 credit of $62).

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

- The amount of costs capitalised as development costs were $619 compared with $517 in the first half of 2018. This reflects a changed mix of revenue generating activities and intellectual property development activities.

- An income tax benefit of $187 (2018 $82) was earned mainly due to income tax refunds arising from research and development incentives the Group is able to access.

Operating cash flows

Importantly, Operating cash flows have improved from an inflow of $865 in 2018 to an inflow of $919. This has enabled repayments of borrowings to be made in the half of $267.

Future developments

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

- Developing products, especially tactical communications products, which can be sold separately from major network projects; and

- Increasing recurring revenues from support contracts and royalty arrangements.

In August 2019, the Group completed a Convertible Note issue raising $1,350 for working capital purposes.

Rounding of amounts

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

Signed in accordance with a resolution of the directors

David Deacon, Director
27 August 2019

Independent Auditor's Review Report

To the members of Etherstack plc

We have reviewed the condensed set of financial statements in the half-yearly financial report of Etherstack plc for the six months ended 30 June 2019 which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cashflows and related notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities for the half-year financial report

The half yearly financial report is the responsibility of, and has been approved by, the directors.

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

Our responsibility

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

Scope of review

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

Independent Auditor's Review Report - continued

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with the accounting policies set out in Note 2, which comply with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Material uncertainty in relation to Going Concern

In forming our review conclusion, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements, which indicates that as at 30 June 2019 the group had net current liabilities of $4.4 million, cash of $24,000, has to manage its working capital carefully and may be reliant on shareholder support. These conditions, along with the other matters explained in note 2 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Grant Thornton UK LLP

Grant Thornton UK LLP, Cambridge

28 August 2019

Consolidated Statement of Comprehensive Income
For the period ended 30 June 2019

	Half year ended 30 June 2019 USD $'000 (unaudited)	Half year ended 30 June 2018 USD $'000 (unaudited)
Revenue from Contracts with Customers	1,718	1,878
Cost of sales	(737)	(806)
Gross Profit	981	1,072
Other income – research & development incentives	64	53
Other administrative expenses	(1,944)	(2,029)
Net foreign exchange /(loss)/gain	(16)	141
Group operating loss from continuing operations	(915)	(763)
Finance costs	(156)	(160)
Loss before taxation	(1,071)	(923)
Income tax benefit	187	82
Loss after taxation for the period attributable to the equity holders of the parent	(884)	(841)
Other comprehensive income/(loss)		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(5)	(44)
Total comprehensive loss for the period attributable to the equity holders of the parent	(889)	(885)

Loss per share attributable to the equity holders of the parent

Basic loss for the period (in US cents)	(0.79)	(0.75)
Diluted loss for the period (in US cents)	(0.79)	(0.75)

The results above relate to continuing operations.

Consolidated Statement of Financial Position
As at 30 June 2019

	Note	30 June 2019 USD $'000 (unaudited)	31 December 2018 USD $'000 (audited)
NON-CURRENT ASSETS			
Intangible assets	5	3,544	3,705
Property, plant and equipment		39	43
Right-of-use assets		237	-
		3,820	3,748
CURRENT ASSETS			
Inventories		195	214
Trade and other receivables		1,278	2,721
Cash and bank balances		24	51
		1,497	2,986
TOTAL ASSETS		**5,317**	**6,734**
CURRENT LIABILITIES			
Trade and other payables		2,647	3,006
Deferred revenue		923	1,072
Employee entitlements		442	495
Current tax liabilities		91	27
Borrowings		1,038	1,366
Convertible notes	6	636	601
Lease liabilities		121	-
		5,898	6,567
NON-CURRENT LIABILITIES			
Deferred revenue		100	104
Deferred tax liabilities		53	66
Employee entitlements		25	30
Lease liabilities		177	-
		355	200
TOTAL LIABILITIES		**6,253**	**6,767**
NET (LIABILITIES)		**(936)**	**(33)**
EQUITY			
Share capital		645	645
Share premium account		7,742	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,738)	(2,733)
Accumulated losses		(10,691)	(9,793)
TOTAL EQUITY		**(936)**	**(33)**

Consolidated Statement of Changes in Equity
For the period ended 30 June 2019

	Share Capital USD $'000	Share Premium Account USD $'000	Merger Reserve USD $'000	Share Based Payment Reserve USD $'000	Foreign Currency Translation Reserve USD $'000	Retained Earnings USD $'000	Total Equity USD $'000
For the half-year ended 30 June 2018							
Balance at 1 January 2018	645	7,742	3,497	609	(2,608)	(9,846)	39
Loss for the period	-	-	-	-	-	(841)	(841)
Other comprehensive income for the period	-	-	-	-	(44)	-	(44)
Total comprehensive income for the period	-	-	-	-	(44)	(841)	(885)
Balance at 30 June 2018 (unaudited)	645	7,742	3,497	609	(2,652)	(10,687)	(846)
For the half-year ended 30 June 2019							
Balance at 1 January 2019	645	7,742	3,497	609	(2,733)	(9,793)	(33)
Change in Accounting policy (Note 4)						(14)	(14)
Restated equity at 1 January 2019	645	7,742	3,497	609	(2,733)	(9,807)	(47)
Loss for the period	-	-	-	-	-	(884)	(884)
Other comprehensive income for the period	-	-	-	-	(5)		(5)
Total comprehensive income for the period	-	-	-	-	(5)	(884)	(889)
Balance at 30 June 2019 (unaudited)	645	7,742	3,497	609	(2,738)	(10,691)	(936)

Consolidated Statement of Cash Flows
For the period ended 30 June 2019

	Note	Six months 30 June 2019 USD $'000 (unaudited)	Six months 30 June 2018 USD $'000 (unaudited)
Operating loss		(884)	(841)
Adjustments for:			
Depreciation of property, plant and equipment		12	17
Depreciation of leased assets		59	-
Amortisation of intangible assets	5	778	877
Amortisation of finance costs		77	76
Revaluation of embedded derivative		(67)	(14)
Net unrealised foreign exchange (gains) losses		(4)	(143)
Interest expense		146	98
Operating cash flows before movements in working capital		**117**	**70**
Decrease /(Increase) in inventories		19	(153)
Decrease in receivables		1,435	1,149
Decrease in payables		(360)	(81)
Decrease in income tax payable		(64)	(95)
Decrease in deferred revenue		(148)	(2)
Interest paid		(80)	(23)
Net cash flow generated/(used in) from operating Activities		**919**	**865**
Investing activities			
Purchases of intangible assets and development costs	5	(618)	(517)
Purchases of property, plant and equipment		(9)	(11)
Net cash flow used in investing activities		**(627)**	**(528)**
Financing activities			
Principal elements of lease payments		(54)	-
Repayment of borrowings		(267)	(277)
Interest paid		-	(48)
Net cash from financing activities		**(321)**	**(325)**
Net increase/(decrease) in cash and cash equivalents		**(29)**	**12**
Cash and cash equivalents at 1 January		51	41
Effect of foreign exchange rate changes		2	(2)
Cash and cash equivalents at end of period		24	51

Notes to the Condensed Consolidated Financial Statements

1. General information

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

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2019 comprises the Company and its subsidiaries (together referred to as 'the Group'). The principal activities of the Group throughout the period were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company. These financial statements are presented in US$ because the Group operates in international markets and the US$ provides the most comparable currency for peer companies. All amounts are in USD and $000 unless otherwise indicated.

2. Basis of preparation

The condensed consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2018.

This condensed consolidated interim financial report does not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards, (IFRS) as adopted by the European Union and should be read in conjunction with the consolidated financial statements at 31 December 2018.The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 27 August 2019.

2.1. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. For the six months to 30 June 2019, the Group incurred a loss after tax of $884 which includes non-cash amortisation of intangible assets of $778 and depreciation of $71, the Group generated cash inflows from Operating activities of $919 and at 30 June 2019 the Group has net liabilities of $936 and net current liabilities of $4,401 and cash of $24.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets set out in the business plan. The Directors have considered the strength of the sales pipeline in particular contracts in progress, royalty and support revenue streams and cash within the Group in particular the $1.35 million raised through the issue of Convertible Notes in August 2019 and outlined in Note 8, and are satisfied these are sufficient to continue operations for at least 12 months from the date of approval of the financial statements. In the event revenue targets were not met then this would place a strain on resources and there is a reasonable likelihood that further funding will be required. Two shareholders have provided letters of support indicating they will provide financial assistance should it be required for the Group to manage its working capital requirements and to fund investments required to deliver its current business plan.

The Directors note the Company has a record of successful fund raising to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders to provide additional capital should it be required.

The Directors acknowledge that there can be no certainty these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and the directors have therefore concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated and/or funding can be raised 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

Notes to the Condensed Consolidated Financial Statements

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.

2.2. Financial reporting period

The interim financial information for the period from 1 January 2019 to 30 June 2019 is unaudited. In the opinion of the Directors, the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The accounts incorporate comparative figures for the interim period 1 January 2018 to 30 June 2018 and the audited financial year to 31 December 2018. The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006.

The comparatives for the full year ended 31 December 2018 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, but included a reference to going concern issues, which the auditors drew attention to, by way of an explanatory paragraph, without modifying their report.

3. Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2018.

4. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2018, except for the adoption of IFRS 16 Leases.

New standard IFRS 16 Leases adopted by the Group
The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adaptation of IFRS 16
On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 14%.

	2019 $000
Operating lease commitments disclosed as at 31 December 2018	350
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(106)
Lease liability recognised as at 1 January 2019	**244**
Of which are:	
Current Lease liabilities	51
Non-current lease liabilities	193
	244

Notes to the Condensed Consolidated Financial Statements

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no other right-of-use assets recognised.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by $295
- trade and other payables– decrease by $42
- lease liabilities – increase by $351.

The net impact on retained earnings on 1 January 2019 was a decrease of $14.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The group's leasing activities and how these are accounted for

The group leases various offices. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Notes to the Condensed Consolidated Financial Statements

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the group and not by the respective lessor.

Critical judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of $415 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

Notes to the Condensed Consolidated Financial Statements

5. Intangible assets

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

	Capitalisation of development costs USD $'000	Engineering software USD $'000	Acquired Customer relationship USD $'000	Total USD $'000
Cost:				
At 1 January 2018	18,406	697	893	19,996
Additions	473	44	-	517
Disposal	-	(313)	-	(313)
Exchange differences	-	-	(47)	(47)
At 30 June 2018	18,879	428	846	20,153
At 1 January 2019	19,614	431	808	20,853
Additions	619	-	-	619
Exchange differences	-	-	(6)	(6)
At 30 June 2019	20,233	431	802	21,466
Accumulated amortisation				
At 1 January 2018	14,856	653	520	16,029
Charge for the period	810	14	53	877
Disposal	-	(313)	-	(313)
Exchange differences	-	-	(31)	(31)
At 30 June 2018	15,666	354	542	16,562
At 1 January 2019	16,214	368	566	17,148
Charge for the period	716	14	48	778
Exchange differences	-	-	(4)	(4)
At 30 June 2019	16,930	382	610	17,922
Carrying amount				
At 30 June 2019	3,303	49	192	3,544
At 30 June 2018	3,213	74	304	3,591

Notes to the Condensed Consolidated Financial Statements

6. Convertible notes	**30 June 2019 USD $'000**	**31 December 2018 USD $'000**
Amortised cost as at 1 January	493	318
Interest costs	26	55
Amortisation of finance costs	77	151
Effect of foreign exchange	(3)	(31)
Amortised cost at end of period	593	493
Embedded derivative as at 1 January	108	52
Fair value adjustment as at 30 June	(67)	62
Effect of foreign exchange	2	(6)
Embedded derivative at end of period	43	108
Convertible notes	636	601
Disclosed as:		
Current liabilities	636	601
Non-current liabilities	-	-
Convertible notes	636	601

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

Fair Value

The conversion rights attached to the convertible notes represent an embedded derivative and is the only financial liability measured at fair value. This financial liability as at 30 June 2019 is $43 (30 June 2018: $37). Derivative financial instruments are valued using internal models. The fair values are determined using option pricing models (Black Scholes), which use various inputs including current market prices for underlying instruments, time to expiry, current rates of return and volatility of underlying instruments. Prices are sourced from quoted market prices. Such instruments are classified within Level 3 valuation technique.

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

Notes to the Condensed Consolidated Financial Statements

7. Related party transactions

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

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

- Net advances of $3 were made to the company being the deferral of expenses.
- Interest accrued in the period is nil.

At 30 June 2019, $173 remains owing to David Deacon. The loan amount due being $173 (31 December 2018 $177) represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

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

- Interest of $1 was accrued for the half year.
- Loans of $18 were advanced by the deferral of salary payments and expenses.

At 30 June 2019, USD $252 (31 December 2018 $245) is owing to Paul Barnes. The loan of $23 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being $229 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

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

- Interest of $48 (30 June 2018 $42) was accrued for the half year and $26 repayments were made.
- Loans of $17 (30 June 2018 $20) were advanced by the deferral of salary payments and expenses.
- During the period, interest of $12 was accrued on Convertible notes held.

At 30 June 2019, $1,447 (31 December 2018 $1,412) is owing to Peter Stephens. The loan of $965 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being $482 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

8. Subsequent Events

In August 2019, Etherstack plc raised $1.35 million (AUD $2 million) through the issue of Convertible Notes. The key terms of the issue are:

- 6,666,667 Convertible Notes have been issued at a face value of AUD $0.30. If converted, the Convertible Notes shall convert into 6,666,667 fully paid ordinary shares
- The Notes are Convertible at the note holders' option at any time prior to maturity, being 2 years after the date of issue.
- The Convertible Notes may be repaid prior to maturity. Early repayment within 12 months of the issue date is possible if the Company and the Convertible Note holder agree. Early repayment later than 12 months after the issue date is possible at the option of Etherstack plc.

Directors' Declaration

In the opinion of the Directors:

(a) The financial statements and notes set out on pages 7 to 17*:*

- (i) comply with Accounting Standard IAS 34 Interim Financial Reporting
- (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the six months ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

David Deacon
Director

27 August 2019

Corporate Information

Company Registration No. 7951056

ARBN 156 640 532

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

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

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Statutory Auditor
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Stock Exchange Listing
Australian Securities Exchange
(Code: ESK)

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