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31 March 2020

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

31 December 2019 financial statements of Etherstack plc (ESK)

The attached 31 December 2019 financial statements are authorised for release to the ASX.

Authorised by

David Carter

David Carter
Chief Financial Officer & Company Secretary

Etherstack plc AND CONTROLLED ENTITIES

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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

Strategic Report

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

2019 Highlights

- **Positive EBITDA:** US $1.1 million EBITDA on revenue of US $4.8 million, following FY2018 EBITDA US $1.9 million. Revenue was down 9% from 2018 revenues of $5.3 million primarily due to timing on major contract deliveries that shifted into Q1 2020
- **Strong Positive Cashflow:** Net operating cash inflow of US $1.4 million in 2019 following strong operating cash inflow of US $1.5 million in 2018
- **Continued Recurring Revenue Growth:** Recurring revenues (support and royalty revenue) increased a further 9% in 2019, driven by long term support contracts. Further recurring revenue growth is expected in 2020 based on support revenues associated with contracted network deliveries
- **Strategic Business Wins:** Significant federal policing network supply contract to Royal Canadian Mounted Police. Initial award of CAD $1.7 million to deploy redundant digital core network and 26 digital radio sites. Expected support contract and expansion follow on awards in 2020 and 2021. First US Department of State contract award
- **Expansion Business Wins:** Further network expansion orders for Australian and Canadian electric utility networks demonstrating customer satisfaction with Etherstack solutions
- **Working Capital Improvement & Reduced Borrowing Costs:** Working capital strengthened through AU$0.30 convertible note raise of US $1.398 million (AU $2.0 million) at more favourable coupon rates in August 2019 and through conversion of old convertible notes in December 2019 into equity of US $0.262 million.

Etherstack Activities and Differentiation

The principal activities of the Group are design, development and deployment of wireless communications software and products.

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 invested over $20 million into our suite of intellectual property assets over an extended period and has developed a substantial intellectual property portfolio that generates a diverse range of revenue streams from multiple technology areas, clients and regions, and from 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 such as government public safety services, electric utilities and mining & resources
- Providing local support in the Americas, Asia and Europe with global back up
- Ongoing investment in developing new capabilities such as unique satellite and 4G/5G products aimed at the public safety market

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

CEO Review

Revenue

The company continued to build its recurring revenue base during 2019 receiving $1,838 from royalties and support activities. Despite this increase, overall revenues declined from 2018 to 2019 due to our traditionally more volatile project revenue stream that can see large receipts and deliveries span multiple reporting periods. Overall, the company entered 2020 with a strong order book led by a significant project for the Royal Canadian Mounted Police and a major electric utility client. This combined with a robust pipeline of quality government, utility and resource sector clients provide an optimistic outlook for 2020.

During 2019 revenue decreased 9.0% to $4,792 (2019 revenue remained 15.7% higher than 2017 revenues which were $4,142). Project revenues comprising Licence fees, installation/integration and supply of wireless communications technology were $2,954 in 2019 compared to $3,582 in 2018. The 2019 revenue decrease is primarily due to reduced activity on major contracts offset by growth in recurring revenues. Project/contract revenues can be volatile as these revenues are derived from a small number of individually large projects/contracts. Any delay or change to project schedules can cause revenue volatility between periods.

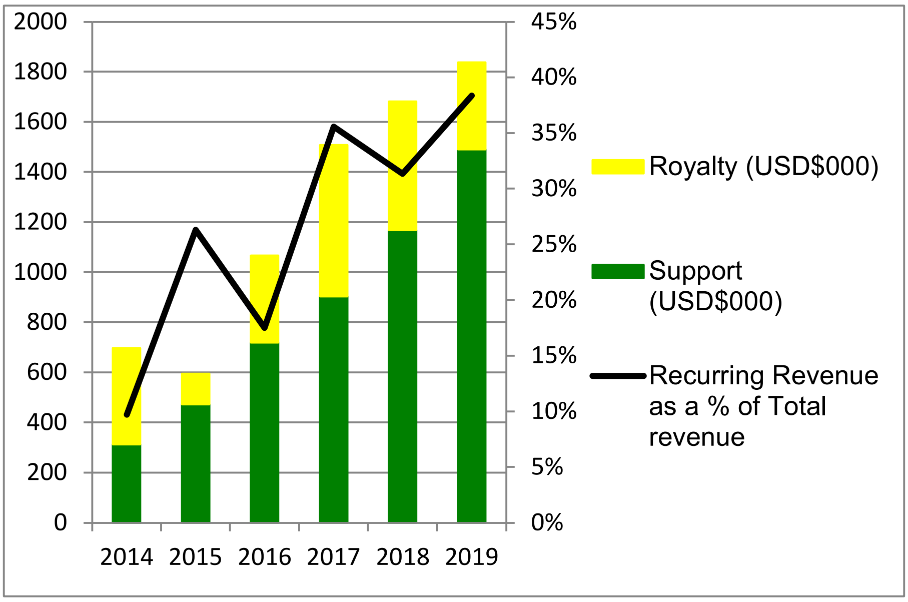
Despite reduced revenue, the Company produced a solid $1,093 EBITDA and strong positive operating cashflow of $1,364.

Recurring revenues

2019 has seen continued growth of our recurring revenue streams. Aggregate recurring revenues comprising Royalties and Support revenue streams are $1,838 for 2019 compared to $1,682 in 2018. The increase in 2019 represents a 9.3% increase over 2018. This KPI has increased 164% over the 5 years from $697 in 2014 to $1,838 in 2019.

These recurring revenues contributed 38% of total revenue in 2019 (2018: 31%). This contribution can fluctuate, however, over the medium term, recurring revenues have grown in both absolute terms, from $697 in 2014 through to $1,838 in 2019 and, as a percentage of total revenue, 10% in 2014 through to 38% in 2019.

Recurring revenue streams reduce overall revenue volatility and cash flow volatility and reduce dependence upon a small number of large contracts where the scale of the project and nature of the end users means timing of revenue recognition is difficult to accurately predict.



Graph 1 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2019 shown in USD and as a percentage of Total revenue

Strategic Report

Support revenues

Support revenues increased in 2019 to $1,490 from $1,168 in 2018 following the rollout of digital radio networks in 2019 as well as incremental growth to other supported networks. Support revenues have increased from $312 in 2014 to $1,490 in 2019. This is a compound annual growth rate of 36.7%.

Support revenues have increased at a CAGR of 36.7% over the past 5 years

Etherstack currently supports seven large digital radio networks in the North American public safety (first responder) and electric utility market. Etherstack also supports a major utility network in Queensland, Australia and an Australian Government network commissioned in 2018. There are currently network deployments in progress which will provide revenue directly connected to the expansion plus additional support revenues for many years thereafter.

The company expects additional support revenue growth in at least 2020, 2021 and 2022 based on contracts in hand.

Royalty revenues

Royalty revenues 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.

Royalty revenues declined in 2019 from $514 to $348. The royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology.

2019 Contract wins

In 2019 Etherstack achieved important contract wins and repeat business in the Government radio communications for public safety and electric utility sectors in Australia, USA and Canada. In particular, the contract with Cartel Communications Inc to deliver a multi-million dollar network to The Royal Canadian Mounted Police demonstrates Etherstack's ability to win and deploy complex communications networks around the world.

Result for 2019

Loss after income tax of $871 compared to Net profit after tax of US $53 in 2018.

This result is due to:

- Decreased revenues, as outlined above. The significant revenue growth Etherstack achieved in 2018 (26.6%) was not sustained and revenue decreased 9.0% to $4.792 million
- Slight increase in administrative expenses of $193 relative to 2018. Included in this increase is a increased amortisation charge on Etherstack's intellectual property assets. The 2018 charge is $1,613 compared to $1,489 in 2018 representing a $124 or 8.3% increase.
- The Etherstack group has operations in Australia, United States, United Kingdom and Japan and as a consequence is exposed gains and losses from to foreign currency fluctuations between the reporting currency USD and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2019 there was a currency translation loss of $180 compared to a benefit of $321 in 2018.
- Revaluation of the embedded derivative net of amortisation has led to a profit & loss account charge of $16 compared to $214 in 2018. The revaluation is based on a Black Scholes model and uses inputs including the prevailing share price, interest rates and the remaining life of the option embedded within the convertible note.

Strategic Report

EBITDA

EBITDA has decreased to $1,093 from $1,863 in 2018 however EBITDA has remained positive despite the loss after tax of $871 predominantly due to add back of the amortisation charge of $1,613.

	2019	2018
Statutory profit/(loss) after tax	(871)	53
After tax effect of:		
Depreciation	25	29
Depreciation of right-of-use assets	118	-
Amortisation and impairment	1,613	1,489
Interest and embedded derivatives revaluation and amortisation	337	419
Income tax	(129)	(127)
EBITDA	1,093	1,863

The Directors consider EBITDA to be a useful measure of performance as it excludes the significant non-cash amortisation expense.

Intellectual property development

Etherstack remains committed to developing new technology and intellectual property assets as well as refreshing, maintaining and enhancing its existing suite of intellectual property assets.

Accordingly, Etherstack continues to invest in intellectual property development and has invested $1,205 in the current year compared to $1,255 in 2018. Etherstack has now invested in excess of $20,000 into its portfolio of intellectual property assets.

Etherstack maintains the engineering skillsets and capacities to complete the developments in progress and to develop new technology to respond to opportunities in the future.

Etherstack is actively recruiting engineers across its four research and development locations in support of increased activity and a strong order book and pipeline.

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled $4,792 compared to $5,264 in 2018. 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 for 2019 was $1,838 compared to $1,682 in 2018 representing an increase of $156 or 9%.

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 noted above, Etherstack invested $1,205 (2018 $1,255) representing 25% (2018:23%) of its revenue into intellectual property development in 2019.

2019 Overall and Future prospects

2019 demonstrated that the Company's strategy of reduced reliance on "lumpy" project revenues through rebalancing to recurring revenue streams is bringing significant long-term improvement to the Company's financials. This is shown by a 37% CAGR (compound average growth rate) in support revenues over the last 5 years with revenues growing in this period from $312 to $1,490.

Yet again, the Company product a strong EBITDA and positive net operating cash flow. On the client side, the Company added key strategic international customers such as the US State Department, Royal Canadian Mounted Police and other government public safety agencies at both a state and federal level in Australia and the United States

Strategic Report

Etherstack has entered 2020 with a strong order book and new pipeline from state and federal public safety agencies in North America and Australia with further awards expected in the near term. The Group is expecting a significantly stronger 2020 based on orders in hand and negotiations currently underway.

While the directors consider the prospects for the business are promising, there remains a material uncertainty in relation to timing of revenues and cash inflows. A summary of this is described further below including the potential impact of Covid 19.

Principal Risks and uncertainties

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 2019 increase in royalty and support revenues is 9.3% following an 11.5% increase in 2018 and together these revenues represent 38% of total revenue. However, the impact of individually significant contracts remains in existence at the balance sheet date.

- **Ability to continue as a going concern**

Connected with the dependence on key contracts is the need for the Group to achieve revenue targets to generate the cash flows set out in the business plan. The adoption of the going concern basis of accounting, the consequences on cash reserves in the event that revenue targets were not met and potential mitigating actions are outlined in the Directors report.

- ***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,

Strategic Report

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 Note 16 to the financial statements.

- ***Product liability***

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.

- ***Liquidity risk***

The Group aims to mitigate liquidity risk by managing cash generation by its operations. Investment is carefully controlled, with authorisation limits operating up to 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.

Covid 19 impacts

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

- Alternative arrangements are being made for delivery of projects and to date effective workaround arrangements are in place for all projects in progress. Notwithstanding these current arrangements have been effective and Etherstack has engineers in Australia, North America, Europe and Japan, it is possible that an inability to travel or travel restrictions, will impact our ability and efficiency in the delivery of projects in the future.
- Our engineers and the broader Etherstack workforce already work from home regularly and the nature of the work, being software development, means the majority can transition to full time work from home with minimal impact upon productivity.
- Etherstack revenues may be negatively impacted if the Company or our suppliers are unable to procure components for some of our Tactical communications products or lead times become protracted.
- The impact of Covid 19 is inherently uncertain. As many of our projects are long term infrastructure projects often funded by governments or semi-government entities, with funding agreed, we are not expecting a significant impact on short term revenues although signing of certain new contracts could experience some delays. The outlook over the medium term is less certain however it is important to note that government stimulus spending on infrastructure projects and public safety in general may provide additional opportunities in the medium term.

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

David Deacon
Chief Executive Officer

Report of the Directors

Directors and Key Management

Peter Stephens – Non-Executive Chairman

Peter is currently Chairman of Etherstack, a director of various private companies and 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 having been Chairman and initial investor in Scott Dunn which was sold in 2014 for £77m. He is also Chairman of Boisdale Canary Wharf, a Scottish themed restaurant. He raised the initial funding for Tristel plc in 2003 and remained 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), GSMA, Australian Competitive Carriers Coalition ('Commpete'), SDPPI (Indonesia's spectrum regulator), ARCIA, Macquarie Telecommunications, Malaysian Communications and Multimedia Commission (MCMC), National Broadcasting and Telecommunications Commission (Thailand), Myanmar Government, TRA (UAE), KPMG, Telekom Malaysia, Axiata Group, edotco Group, and Telkom South Africa. In the past 12 months, he was the principal author of an ITU White Paper entitled *Digital Infrastructure Policy and*

Report of the Directors

Regulation in the Asia-Pacific region released in Bangkok in September 2019, and GSMA report with Plum Consulting entitled *Roadmap for C-band spectrum in ASEAN*, August 2019.

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 over 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

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.

Report of the Directors

Company 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)

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Auditor
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Statutory Auditor
Cambridge, United Kingdom

Stock Exchange Listing
Australian Securities Exchange
(Code: ESK)

Share Registrars
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Australia

Computershare Investor Services plc
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Bristol BS99 6ZY
United Kingdom

Website
www.etherstack.com

Report of the Directors

Directors Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2019. All amounts are in USD $000 unless otherwise indicated.

This report should be read in conjunction with the Strategic Report on pages 3 to 8.

1. Board of Directors and Officers of the company

The names of the Directors who held office during the 2019 year and to the date of this report are:

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 incurred a loss after tax for the year of $871 (2018 profit of $53).

Earnings/(Loss) per share

Basic loss per share from continuing operations of 0.78 US cents in 2019 compares to 2018 Basic earnings per share of 0.05 US cents.

3. Going Concern

The financial statements have been prepared on a going concern basis which assumes the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group reported a loss after tax of $871 (2018 profit of $53), net operating cash inflow of $1,364 (2018 inflow $1,528) and is in a net current liability position as at 31 December 2019. As highlighted in the Strategic Report while total revenue decreased in 2019, recurring revenues from support contracts continued to increase, the Group continued to generated positive EBITDA results and maintained positive cash inflows from operating activities.

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 2019, the strength of the sales pipeline, contracts in progress, royalty and support revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event revenue targets were not met or the expected revenues were delayed, then this would place a short-term strain on working capital. The directors are experienced in managing working capital in this environment and will continue to do so, should this be necessary. In addition, 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 fund investments required to deliver its current business plan subject to specified limits. Furthermore, lenders to the company, whose loans are included in current liabilities, have agreed not to seek repayments beyond the ability of the company to repay the loans for at least the next 12 months. The Directors also 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.

Report of the Directors

The Directors acknowledge there can be no certainty these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and this represents a material uncertainty which may cast significant doubt over the ability of the Group and the Company to continue as a going concern. The Group and company may therefore may be unable to realize their assets and discharge their liabilities in the normal course of business. However, after considering the material uncertainty, 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.

The Directors have also reconsidered their budgets, forecasts, costs and sensitivity analysis in the light of the Coronavirus epidemic and the potential impact on the Group. The risks to the Group include delay in timing of revenue transactions and delay in cash receipts, difficulties in obtaining goods from suppliers and delivering projects to customers and ability of the workforce to work remotely. Given the current status of contracts and the Group's customer base, as well as other mitigating factors, the directors currently consider that the impact of Coronavirus on the Group is not likely to be significant over the medium term but does create further uncertainty (in addition to the above) which the Directors continue to monitor and manage.

4. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: $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 2019 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
27 March 2020

Report of the Directors

Corporate Governance Report

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc Group of companies (the Group). The Group 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.

The Board of Directors of Etherstack plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act) in the decisions taken during the year ended 31 December 2019.

The Board oversees the business in such a way to ensure the long-term success of the business. The key driver of the long-term success of the business is sustained appropriate investment into technology research and development activities.

In turn this investment requires building and maintaining the skills of our employees who are fundamental to the success of the business. Etherstack aims to be a responsible employer in every location. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

Determining which products to develop and where to invest in research and development requires extensive engagement with customers and end-users and through this engagement, we are able to gain an understanding of their views, priorities and challenges.

An appropriate and positive relationship with suppliers and customers is a pre-requisite to the successful operation of the Company and exists in all areas of the business

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating to the high standards of business conduct and good governance.

This intention includes behaving responsibly toward our shareholders, convertible note holders and option holders and treat them fairly and equally, so they too may benefit from the success 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.

Report of the Directors

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 9 and 10. 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.

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.

Report of the Directors

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 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 6.1% 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.

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 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.

Report of the Directors

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2019 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.

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 5 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.

Report of the Directors

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	5	5	4	4	1	1	1	1
Paul Barnes	5	3	4	2	1	-	1	-
David Deacon	5	5	-	-	-	-	-	-
Scott Minehane	5	4	4	3	1	1	1	1

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 Financial Officer: male,
- Workforce (excluding senior management and executive directors); 22 Employees: 1 female, 21 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".

Report of the Directors

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.

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 Scott Minehane, Chair of the Committee, Peter Stephens and Paul Barnes. Both Scott Minehane and Paul Barnes are Independent Non-Executive Directors.

During the year, 3 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 4 meetings.

The Board of Directors has received from the 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 appraised 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.

Report of the Directors

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".

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 2019.

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 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.

Report of the Directors

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

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 may draw 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.

Report of the Directors

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).

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
The Directors earned the following remuneration:

2019	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	1,981	261,981
	260,000	1,981	261,981
Non-Executive Directors			
Peter Stephens	33,179	-	33,179
Paul Barnes	45,190	-	45,190
Scott Minehane	31,284	2,972	34,256
	109,653	2,972	112,625
TOTAL	**369,653**	**4,953**	**374,606**

2018	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,132	262,132
	260,000	2,132	262,132
Non-Executive Directors			
Peter Stephens	34,710	-	34,710
Paul Barnes	45,840	-	45,840
Scott Minehane	33,656	3,197	36,853
	114,206	3,197	117,403
TOTAL	**374,206**	**5,329**	**379,535**

Report of the Directors

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 2019	Options vesting in the year	Options lapsing in the year	Total options vested as at 31 December 2019	Exercise price	Earliest date of exercise	Date of expiry
Non-Executive								
Scott Minehane	-	-	-	-	-	n/a	n/a	n/a
Peter Stephens	-	-	-	-	-	n/a	n/a	n/a
Paul Barnes	-	-	-	-	-	n/a	n/a	n/a

Directors' interests

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

Director	Number of ordinary Shares 31 December 2019	Number of ordinary Shares 31 December 2018	Number of options 31 December 2019	Number of options 31 December 2018	Number of convertible notes 31 December 2019	Number of convertible notes 31 December 2018
David Deacon	48,241,850	48,241,850	-	-	-	-
Peter Stephens	17,322,587	15,889,058	-	-	-	322,580
Paul Barnes	6,850,000	6,850,000	-	-	-	-
Scott Minehane	81,875	81,875	-	-	-	-

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.

Report of the Directors

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

27 March 2020

Independent auditor's report to the members of Etherstack plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Etherstack plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which 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 notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (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.

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 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with 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.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1.4 in the financial statements, which indicates that as at 31 December 2019 the Group had net current liabilities of $2.4m, incurred a loss for period of $0.9m, and in the event that revenue and cashflow targets are not met (for various reasons including the potential impact of the coronavirus epidemic) then further funding will be required. As stated in note 1.4, these conditions, along with the other matters set forth in note 1.4, indicate that a material uncertainty exists that may cast significant doubt on the group and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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Independent auditor's report to the members of Etherstack plc

Overview of our audit approach
• Overall materiality: $73,000 which represents 1.5% of the group's revenue; • Key audit matters were identified as capitalisation of development costs, carrying value of intangible assets and improper revenue recognition; • We performed full scope audit procedures at Etherstack plc, Etherstack Wireless Limited and Etherstack Pty Limited and targeted audit procedures at Etherstack Inc and Auria Wireless Pty Limited.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter – Group	How the matter was addressed in the audit – Group
Capitalisation of development costs	
At the year end the group had $3.30m of intangible assets (2018: $3.71m) including $3.12m (2018: $3.59m) of capitalised development costs. During 2019 $1.21m of internal costs were capitalised.	Our audit work included, but was not restricted to: • assessing product development activities alongside the qualifying nature of the projects to ensure that capitalisation is in accordance with the recognition criteria for capitalisation under IAS 38;
The Directors and Management assess each project according to the capitalisation criteria set out in International Accounting Standard (IAS) 38: Intangible Assets throughout the project life. Judgement is required to determine whether the criteria are met, in particular whether future economic benefits will be generated and the intention of the Group to complete development and use or sell the asset. These judgements are dependent on expectations of future events.	• recalculation of the mathematical accuracy of the capitalised amounts; • agreeing amounts capitalised to supporting evidence including timesheets on a sample basis • assessment of Management's cash flow forecasts, including evaluating assumptions used in the calculations through comparison to prior year forecasts and results achieved, supporting the generation of future economic benefits from the capitalised costs; and • obtaining an understanding from Management of the details of projects capitalised and assessed whether they relate to additional functionality that can be capitalised in accordance with IAS 38. The Group's accounting policy and related disclosures on capitalisation of development costs is included in note 9.
We therefore identified this risk as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Key observations** Our testing did not identify any material misstatements with the capitalisation of intangible assets in accordance with stated accounting policies and IAS 38. The detailed calculations and supporting evidence were consistent with the amounts capitalised.
Carrying value of intangible assets	
At the year end the Group had $3.30m of intangible assets (2018: $3.71m) consisting of capitalised development costs, engineering software and customer contract intangibles.	Our audit work included, but was not restricted to: • inquiry and consideration of the appropriateness of the methodology applied in the impairment review process and the judgement applied in the determination of the CGUs of the business;

Independent auditor's report to the members of Etherstack plc

Key Audit Matter – Group	How the matter was addressed in the audit – Group
The Group is required to perform an impairment review of assets not brought into use and to consider other assets for indicators of impairment in accordance with IAS 36: Impairment of Assets. The losses reported in this year and over previous years are an indicator of potential impairment, and a risk that the carrying value of these assets may be higher than the recoverable amount. The Group's impairment review of its intangible assets incorporated significant judgements in assumptions, such as timing and extent of future revenues, gross margin and discount rate used. The Directors consider that there is one cash generating unit (CGU) and so all intangibles are allocated to this CGU. We therefore identified this risk as a significant risk, which was one of the most significant assessed risks of material misstatement.	• review of the adequacy of disclosures against the requirements of IAS 36; and • assessing the impairment models and value in use calculations by: - recalculation of the mathematical accuracy of the impairment models; - comparing forecast revenue growth to internal supporting information and pipeline contract discussions; - comparison of the discount rate applied to future cash flows against external indicators such as borrowing rate available to the group; and - evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans and discussions with management; - line by line inquiry for any assets that have been abandoned or will no longer be developed; - comparison of the market capitalisation of the business against the carrying value of the group's single CGU. The group's accounting policy and related disclosures on impairment of intangibles is shown in note 9. **Key observations** Our testing did not identify any material misstatements in the carrying value of the capitalised development costs in accordance with IAS 36 Impairment of Assets and the Group's stated accounting policies.
Revenue recognition Under International Standard on Auditing (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. During 2019 the Group generated $4.8m (2018: $5.3m) of revenue. The Group has revenue from four income streams; licence fees design development and supply of wireless communications technology, support, royalties and grant income. Determining the amount of revenue to be recognised can require Management to make significant judgements around timing and extent of recognition , ensuring all revenue is recognised in accordance with IFRS 15, and specifically that product revenue 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, which was one of the most significant assessed risks of material misstatement.	Our audit work included, but was not restricted to: • assessing whether revenue recorded in the period was consistent with the Group's accounting policy for all material revenue transactions and whether that was compliant with IFRS 15; • agreeing significant licence fees design development and supply of wireless communications technology revenue and royalty amounts to customer contracts and purchase orders, delivery notes and cash receipts, ; • for a sample of support contracts, obtaining copies of signed contracts and purchase orders and recalculating the amounts of revenue recognised and deferred; • further testing the occurrence of revenues by selecting a sample of debtor invoices outstanding at the year end and comparing year end balances to post year end receipts or other supporting documentation; • obtaining third party confirmations to support revenue recognised from one significant customer around the year end; .. The Group's accounting policy and related disclosures on revenue recognition is shown in note 2. **Key observations** Our audit work did not identify any material misstatements in revenue recognised in the year or any material instances of revenue not being recognised in accordance with stated accounting policies.

Independent auditor's report to the members of Etherstack plc

Our application of 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.

Materiality was determined as follows:

Materiality measure	Group	Parent
Financial statements as a whole	$73,000 which is 1.5% of revenue. This benchmark is considered the most appropriate because revenue is a key benchmark used by management and shareholders in assessing performance of the business and is a generally accepted audit benchmark. Materiality for the current year is lower than the level that we determined for the year ended 31 December 2018 to reflect the lower revenue.	$5,000 which has used auditor judgement and is considered to be appropriate given the size of the company. Using other benchmarks would result in materiality that is too low for users of the financial statements. Materiality for the current year is consistent with the level that we determined for the year ended 31 December 2018.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality.	75% of financial statement materiality.
Specific materiality	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions.	We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions
Communication of misstatements to the audit committee	$3,650 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$1,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business. We took 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 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 where the focus of our work was required;
- We performed full scope audits of the financial statements of the parent company Etherstack plc, Etherstack Wireless 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;
- the total percentage coverage of full-scope and targeted procedures over revenues was 100%
- the total percentage coverage of full scope and targeted procedures over total assets was 98%
- Our audit approach was fully substantive in nature and consistent with 2018.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Independent auditor's report to the members of Etherstack plc

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the 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.

Matters 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 in relation to which the Companies Act 2006 requires us to report to you if, in 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 of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on pages 23 and 24, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Independent auditor's report to the members of Etherstack plc

Use of our report

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.

Grant Thornton UK LLP

Adrian Bennett
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
30 March 2020

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Revenue from Contracts with Customers	2,3	4,792	5,264
Cost of sales		(1,507)	(1,668)
Gross Profit		3,285	3,596
Other income; research & development incentives		100	102
Amortisation and impairment of intangible assets	4	(1,613)	(1,489)
Other administrative expenses	4	(2,255)	(2,186)
Net foreign exchange (losses)/gains	4	(180)	321
Total administrative expenses		(4,048)	(3,354)
Group operating (loss) / profit from continuing operations		(663)	344
Embedded derivatives revaluation and amortisation (net)		(16)	(214)
Finance income-interest	7	-	1
Finance expense-borrowing costs	7	(321)	(205)
Net finance expense		(337)	(418)
Loss before taxation		(1,000)	(74)
Income tax benefit	8	129	127
(Loss)/Profit after taxation for the year attributable to the equity holders of the parent		(871)	53
Other comprehensive income/(Loss)			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		35	(125)
Total comprehensive loss for the year attributable to the equity holders of the parent		**(836)**	**(72)**

		Cents	Cents
Basic earnings/(loss) per share	21	(0.78)	0.05
Diluted earnings/(loss) per share	21	(0.78)	0.05

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

Consolidated Statement of Financial Position

as at 31 December 2019

	Note	2019 $'000	2018 $'000
Current assets			
Cash and cash equivalents		931	51
Trade and other receivables	13	1,870	2,721
Inventories	12	155	214
Right-of-use assets	17	92	-
		3,048	2,986
Non-current assets			
Property, plant and equipment	11	35	43
Intangible assets	9	3,295	3,705
Right-of-use assets	17	84	-
		3,414	3,748
TOTAL ASSETS		**6,462**	**6,734**
Current liabilities			
Trade and other payables	14(a)	2,467	3,006
Current tax liabilities		46	27
Deferred revenue	15	1,248	1,072
Employee entitlements		236	495
Lease liabilities	14(c)	109	-
Convertible notes	14(b)	-	601
Borrowings	14(b)	1,262	1,366
		5,368	6,567
Non-current liabilities			
Deferred tax liability	8(b)	40	66
Deferred revenue	15	84	104
Employee entitlements		43	30
Lease liabilities	14(c)	130	-
Convertible notes	14(c)	1,417	-
		1,714	200
TOTAL LIABILITIES		**7,082**	**6,767**
NET ASSETS		**(620)**	
Capital and reserves			
Share capital	18	652	645
Share premium account		7,998	7,742
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,698)	(2,733)
Retained earnings		(10,678)	(9,793)
TOTAL EQUITY		**(620)**	**(33)**

The financial statements of Etherstack plc (company registration 7951056) were approved by the Board of Directors and authorised for issue on 27 March 2020. Signed on behalf of the Board of Directors by:

Paul Barnes FCCA, Director

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

Company Statement of Financial Position

as at 31 December 2019

	Note	2019 $'000	2018 $'000
Current assets			
Trade and other receivables	13	18	25
		18	25
Non-current Assets			
Investments in subsidiaries	10	-	2,660
Trade and other receivables	13	8,034	7,062
		8,034	9,722
TOTAL ASSETS		**8,052**	**9,747**
Current Liabilities			
Trade and other payables	14(a)	253	127
Convertible notes	14(b)	-	601
Borrowings	14(b)	1,269	1,129
		1,522	1,857
Non-current Liabilities			
Convertible notes		1,417	-
		1,417	-
TOTAL LIABILITIES		**2,939**	**1,857**
NET ASSETS		**5,113**	**7,890**
Capital and reserves			
Share capital	18	652	645
Share premium account		7,998	7,742
Merger reserve		6,742	6,742
Foreign currency reserve		100	100
Share-based payment reserve		609	609
Retained earnings		(10,988)	(7,948)
TOTAL EQUITY		**5,113**	**7,890**

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 $3,040 (2018 profit $70).

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 27 March 2020.

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 2019

	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 2018	**645**	**7,742**	**3,497**	**609**	**(2,608)**	**(9,846)**	**39**
Profit for the year	-	-	-	-	-	53	53
Other comprehensive income- (losses)	-	-	-	-	(125)	-	(125)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(125)**	**53**	**(72)**
At 31 December 2018	**645**	**7,742**	**3,497**	**609**	**(2,733)**	**(9,793)**	**(33)**
Balance at 1 January 2019	645	7,742	3,497	609	(2,733)	(9.793)	(33)
Change in Accounting policy (Note 24)	-	-	-	-	-	(14)	(14)
Restated total equity at 1 January 2019	645	7,742	3,497	609	(2,733)	(9,807)	(47)
Loss for the year	-	-	-	-	-	(871)	(871)
Other comprehensive income- gains	-	-	-	-	35	-	35
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**35**	**(871)**	**(836)**
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	**7**	**256**	**-**	**-**	**-**	**-**	**263**
At 31 December 2019	**652**	**7,998**	**3,497**	**609**	**(2,698)**	**(10,678)**	**(620)**

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

Company Statement of Changes in Equity

	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 2018	**645**	**7,742**	**6,742**	**609**	**100**	**(8,018)**	**7,820**
Profit for the period	-	-	-	-	-	70	70
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**70**	**70**
At 31 December 2018	**645**	**7,742**	**6,742**	**609**	**100**	**(7,948)**	**7,890**
Profit for the period	-	-	-	-	-	(3,040)	(3,040)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(3,040)**	**(3,040)**
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	**7**	**256**	**-**	**-**	**-**	**-**	**263**
Balance at 31 December 2019	**652**	**7,998**	**6,742**	**609**	**100**	**(10,988)**	**5,113**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		5,628	5,093
Payments to suppliers and employees		(4,473)	(4,095)
Interest paid		(152)	(57)
Government grants and tax incentives		379	651
Income tax paid		(18)	(64)
Net cash generated from operating activities		**1,364**	**1,528**
Cash flow from Investing activities			
Additions to intangible assets	9	(1,205)	(1,255)
Payments for property, plant and equipment	11	(18)	(12)
Net cash flow (used in) investing activities		**(1,223)**	**(1,267)**
Cash flows Financing activities			
Proceeds from loan		-	245
Proceeds from convertible notes issue		1,398	-
Principal element of lease payments		(110)	-
Repayments of loan		(534)	(374)
Interest paid		(15)	(117)
Net cash flow (used in) from financing activities		**739**	**(246)**
Net increase/ (decrease) in cash and cash equivalents		**880**	**15**
Effect of foreign exchange rate changes		-	(5)
Cash and cash equivalents at 1 January		**51**	**41**
Cash and cash equivalents at 31 December		**931**	**51**

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

Company Statement of Cash Flows

For the year ended 31 December 2019

	2019 $'000	2018 $'000
Cash flows from operating activities		
Intercompany (payments)/ receipts	(845)	730
Payments to suppliers and employees	(237)	(247)
Net cash generated from/ (used in) operating activities	**(1,082)**	**483**
Cash flows Financing activities		
Proceeds from convertible notes issue	1,398	-
Re-payments of loan	(293)	(366)
Interest paid	(15)	(117)
Net cash flow (used in) from financing activities	**1,090**	**(483)**
Net increase/ (decrease) in cash and cash equivalents	**8**	**-**
Effect of foreign exchange rate changes	(8)	-
Cash and cash equivalents at 1 January	**-**	**-**
Cash and cash equivalents at 31 December	**-**	**-**

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

Notes to the Consolidated and Company Financial Statements

Notes to the Consolidated and Company Financial Statements

Section I: Basis of Accounting

1 Basis of Accounting

1.1 General Information

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 27 March 2020 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 2019 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 the Group and the Company will continue in operational existence for the foreseeable future. During the year, the Group reported a loss after tax of $871,000 (2018 profit of $53,000), net operating cash inflow of $1,364,000 (2018 inflow $1,528,000) and is in a net current liability position as at 31 December 2019. As highlighted in the Strategic Report while total revenue decreased in 2019, recurring revenues from support contracts continued to increase, the Group continued to generated positive EBITDA results and maintained positive cash inflows from operating activities.

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 2019, the strength of the sales pipeline, contracts in progress, royalty and support revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event revenue targets were not met or the expected revenues were delayed, then this would place a short-term strain on working capital. The directors are experienced in managing working capital in this environment and will continue to do so, should this be necessary. In addition, 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 fund investments required to deliver its current business plan subject to specified limits. Furthermore, lenders to the company, whose loans are included in current liabilities, have agreed not to seek repayments beyond the ability of the company to repay the loans for at least the next 12 months. The Directors also 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.

Notes to the Consolidated and Company Financial Statements

The Directors acknowledge there can be no certainty these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and this represents a material uncertainty which may cast significant doubt over the ability of the Group and the Company to continue as a going concern. The Group and company may therefore may be unable to realize their assets and discharge their liabilities in the normal course of business. However, after considering the material uncertainty, 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.

The Directors have also reconsidered their budgets, forecasts, costs and sensitivity analysis in the light of the Coronavirus epidemic and the potential impact on the Group. The risks to the Group include delay in timing of revenue transactions and delay in cash receipts, difficulties in obtaining goods from suppliers and delivering projects to customers and ability of the workforce to work remotely. Given the current status of contracts and the Group's customer base, as well as other mitigating factors, the directors currently consider that the impact of Coronavirus on the Group is not likely to be significant over the medium term but does create further uncertainty (in addition to the above) which the Directors continue to monitor and manage.

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
- Assessment of the Group as a going concern
- Timing and measurement of revenue recognition

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

Notes to the Consolidated and Company Financial Statements

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. In addition, changes to accounting policies are set out in Note 24.

Section II: Revenue and Expenses

2. Revenue and Other income

An analysis of the Group's revenue and Other income is as follows:	**2019 $'000**	**2018 $'000**
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	2,954	3,582
Support services	1,490	1,168
Royalties	348	514
	4,792	**5,264**
Other income		
Grant receipts – research and development incentives	100	102
	4,892	**5,366**

	2019 $'000			**2018 $'000**		
Timing of revenue recognition	**At a point in time**	**Over time**	**Total**	**At a point in time**	**Over time**	**Total**
Revenue from Contracts with Customers						
Licence fees, design, development and supply of wireless communications technology	2,954	-	**2,954**	3,582	-	**3,582**
Support services	-	1,490	**1,490**	-	1,168	**1,168**
Royalties	348	-	**348**	514	-	**514**
	3,302	**1,490**	**4,792**	**4,096**	**1,168**	**5,264**
Other income						
Grant receipts – research and development incentives		100	**100**	-	102	**102**
	3,302	**1,590**	**4,892**	**4,096**	**1,270**	**5,366**

Revenue recognition accounting policies

The Group has recognise revenue in accordance with IFRS 15 Revenue from Contracts with Customers, and Clarifications to IFRS 15- Revenue from Contracts with Customers (IFRS 15).

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, supply of hardware, software licences including royalties, installation/integration services and support services.

Notes to the Consolidated and Company Financial Statements

The Group evaluates the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and
- it is 'separately identifiable' (ie the Group does not provide a significant service integrating, modifying or customising it).

To determine whether to recognise revenue, the Group follows a 5-step process:

1 Identifying the contract with a customer

2 Identifying the performance obligations

3 Determining the transaction price

4 Allocating the transaction price to the performance obligations

5 Recognising revenue when/as performance obligation(s) are satisfied

The Group enters into transactions involving a range of the Group's products and services, for example for the delivery of hardware, software and related services. In such cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as Deferred revenue in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Licence fees and revenue from the sale of goods

Sales of goods include manufactured equipment sales and white labelled equipment sales.

Revenue from the sale of goods is recognised at a point in time when the performance obligations are satisfied.

Technology access licences revenues are recognised at a point in time 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.

Depending on the circumstances of the agreement and the performance obligations identified within the contract, revenue from these services may be recognised either on a time-and-materials basis as the services are provided or where the Group enters into a contract for a fixed fee, the related revenue will be recognised over time. Revenue is recognised over time as the asset does not have an alternative use and the Group has a right to receive payment for work to date. To determine when and to what extent revenue can be recognised on a fixed fee arrangement, the Group measures its progress towards satisfaction of the performance obligation by comparing actual time spent to date with the total estimated time.

Revenue from support contracts

Revenue from support contracts is recognised evenly over the period of the support contract as the customer receives and consumes the benefit as the Group performs support.

Notes to the Consolidated and Company Financial Statements

Royalties

Royalties that are sales or usage based are recognised at a point in time at the later of when the sale or usage occurs or the performance obligation is satisfied. Minimum royalty commitments are recognised as Royalty revenue when licences are granted as these are not dependent on sales or usage.

Government grants

Government grants are recognised over time 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.

Key Judgements: revenue recognition

Judgement may be required in determining the timing and measurement across all revenue streams at contract commencement, in unbundling revenues and assigning revenue to separate and distinct deliverables or in estimating costs to complete.

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 countries for any given project.

Geographical information

Revenue from external customers by region	**2019 $'000**	**2018 $'000**
Country/region of domicile		
North America	2,441	1,926
Australia and New Zealand	1,708	2,566
Japan, UK and other countries	643	772
	4,792	**5,264**

Non-current assets by region	**2019 $'000**	**2018 $'000**
Country/region of domicile		
United Kingdom	3,155	3,466
North America	5	7
Australia, New Zealand and other countries	346	275
	3,506	**3,748**

Notes to the Consolidated and Company Financial Statements

Revenues from a single customer amounting to more than 10% of Group revenue	2019 $'000	2018 $'000
Customer A	1,188	1,933
Customer B	663	606
	1,851	**2,539**

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

4. Group operating profit/(loss)

This is stated after charging/(crediting):

	2019 $'000	2018 $'000
Depreciation of property, plant and machinery	25	29
Depreciation of Right-of-use-assets	118	-
Operating lease costs	184	356
Foreign exchange Losses /(Gains)	180	(321)
Finance costs - interest on loans and convertible notes	279	205
Finance costs – interest on leased assets	42	-
Inventory costs charged to costs of sales	413	678
Amortisation and impairment of intangible assets:		
Amortisation of intangible assets	1,523	1,489
Impairment of intangible assets	90	-
Amortisation and impairment of intangible assets - Total	1,613	1,489

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:

	2019 $'000	2018 $'000
Grant Thornton UK LLP		
Fees payable to the company auditors for the audit of the company's annual accounts	97	90
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	28	32
Tax compliance services	6	6
Tax advisory services	15	18
	176	**176**

Notes to the Consolidated and Company Financial Statements

6. Staff costs and Directors' emoluments

a) Staff costs	2019 $'000	2018 $'000
Wages and salaries	2,666	2,320
Social security costs	136	197
Pension costs	124	215
	2,926	**2,732**

$Nil share-based payments included in wages and salaries for the current year (2018: $nil).

The average number of employees during the year was:

	2019 Number	2018 Number
Executive Directors	1	1
Engineering	15	16
Management, sales & administrative	9	6
	25	**23**

b) Directors' emoluments	2019 $'000	2018 $'000
Emoluments	369	374
Amounts paid to third parties	-	-
	369	374
Pension costs	5	5

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

The number of directors who are accruing benefits under:	2019 Number	2018 Number
Defined contribution schemes	2	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.

Notes to the Consolidated and Company Financial Statements

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

	2019 $'000	2018 $'000
Related party loans (see Note 22)	66	81
Convertible Notes	138	55
Interest-Leased assets	42	-
Other interest (net)	75	68
Revaluation and amortisation of embedded derivative (net)	16	214
	337	**418**

8. Taxation

(a) Tax (credited)/charged in the statement of comprehensive income.	2019 $'000	2018 $'000
Current income tax:		
UK corporation tax and income tax	(251)	(193)
Foreign tax	24	(1)
Current income tax benefit	(227)	(194)
Amounts under /(over) provided in previous years	98	67
Tax (income)/expense in the statement of comprehensive income	**(129)**	**(127)**

	2019 $'000	2018 $'000
The tax (income)/expense in the statement of comprehensive income is disclosed as follows:		
Income tax (income)/expense on continuing operations	(129)	(127)

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 19% (2018: 19%). The differences are reconciled below:

Notes to the Consolidated and Company Financial Statements

	2019 $'000	2018 $'000
Loss before income tax	(1,000)	(74)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(190)	(14)
Expenses not deductible for tax purposes	45	23
Tax losses not recognised	(398)	(432)
Losses surrendered	366	280
Difference in overseas tax rates	(23)	(3)
Deferred tax liability	(27)	(48)
Amounts under /(over) provided in previous years	98	67
Total tax (benefit)/expense reported in the statement of comprehensive income	(129)	(127)

(b) Deferred tax liabilities/(assets)	1 January 2019	Recognised in Profit & Loss	31 December 2019
	$'000	**$'000**	**$'000**
Deferred tax liability re customer contract intangible	66	(26)	40
Deferred tax asset	(11)	11	-
	55	(15)	40

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.

Notes to the Consolidated and Company Financial Statements

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. 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 only to the extent that it is probable future taxable profits will arise in that jurisdiction.

Unrecognised tax losses

The Group has tax losses in the United Kingdom of $11,232,000 (2018 $10,987,000) 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.

Income tax incentives

There has been a significant income tax benefit realised by the Group in 2019 and 2018 as a consequence of research and development activities by UK resident companies in the Group. The benefit is recognised in the year in which the research and development activities are undertaken. There may be judgement required in determining the likely benefit to be received. Eligible expenditure gives rise to enhanced tax deductions which has created tax losses. Under current legislation, a portion of these losses may be surrendered in return for cash refunds. Losses surrendered in 2019 were $366,000 and in 2018 were $280,000.

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 2018	18,406	697	893	353	20,349
Additions	1,208	47	-	-	1,255
Disposals	-	(313)	-	-	(313)
Exchange differences	-	-	(85)	-	(85)
At 31 December 2018	19,614	431	808	353	21,206
Additions	1,205	-	-	-	1,205
Exchange differences	-	-	(6)	-	(6)
At 31 December 2019	20,819	431	802	353	22,405
Accumulated amortisation					
1 January 2018	14,856	653	520	353	16,382
Charge for the year	1,358	28	103	-	1,489
Disposals	-	(313)	-	-	(313)
Exchange differences	-	-	(57)	-	(57)
At 31 December 2018	16,214	368	566	353	17,501
At 1 January 2019	16,214	368	566	353	17,501
Charge for the year	1,400	27	96	-	1,523
Impairment	90	-	-	-	90
Exchange differences	-	-	(4)	-	(4)
At 31 December 2019	17,704	395	658	353	19,110
Carrying amount					
At 31 December 2019	**3,115**	**36**	**144**	**-**	**3,295**
At 31 December 2018	**3,400**	**63**	**242**	**-**	**3,705**

Intangible assets accounting policies

Intangible assets comprise internal and external costs incurred on the development of intellectual property assets 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 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 in particular potential customer contracts and technical feasibility assessments in project management reports.

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. Where material research and development expenditure is incurred to increase the functionality or performance of an existing asset and thereby extends the useful commercial life of the existing asset, this additional expenditure is capitalised and amortised over the shorter of 3 years and the estimated useful life. 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.

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.

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. In addition, a line by line assessment of individual assets is undertaken for assets that no longer meet the recognition criteria under IAS 38 or have been otherwise abandoned. 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 and an intangible asset not yet ready for use are 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 2019, all assets have been considered to be part of one cash-generating unit (2018 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 $1,205,000 (2018 $1,208,000). 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 outcome of this 2019 review is a $90,000 (2018 $nil) impairment adjustment.

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. 6 years has been selected as this is the estimated useful life of these assets and is therefore considered to be an appropriate period to assess the cashflows to be used in an impairment assessment. The outcome of this review was that no impairment adjustment was required.

The key assumptions are:

- Revenues are based upon the budget for financial year 2020. For subsequent years a growth rate of nil is assumed in the financial models from the base year 2020 budget. 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 18%.

Notes to the Consolidated and Company Financial Statements

Management has considered the sensitivity of the value in use calculation to changes in assumptions in particular changes to the discount rate and earnings (EBITDA). A 1% increase in the assumed discount rate creates a $249,000 decrease in the value in use. There is no impairment required by a 1% change in the assumed discount rate. A 1% to 10% decrease in assumed earnings creates a $93,000 to $930,000 decrease in the value in use. There is no impairment required by a 1 to 10% decrease in the assumed earnings.

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 2019 $000**	**Company 2018 $000**
Subsidiary undertakings at cost	7,311	7,311
Less impairment provision	(7,311)	(4,651)
	-	**2,660**

The Company's investments at 31 December 2019 in the share capital of other companies comprises:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack Wireless Limited (previously 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

* 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.

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

Notes to the Consolidated and Company Financial Statements

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 2019 an impairment adjustment of $2,660,000 (2018 $nil) has been recognised. Etherstack plc is a holding company and the listed vehicle within the Group. Operating subsidiaries 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 $2,660,000 (2018 $nil).

11. Property, plant and equipment (Group)

	Leasehold property improvements $'000	Furniture and equipment $'000	Computer equipment $'000	Total $'000
Cost				
At 1 January 2018	29	138	326	493
Additions	-	-	12	12
Disposals	-	(3)	-	(3)
Exchange differences	(2)	(8)	(21)	(31)
At 31 December 2018	27	127	317	471
Additions	-	-	18	18
Exchange differences	(1)	2	7	8
At 31 December 2019	26	129	342	497
Accumulated depreciation				
At 1 January 2018	28	127	274	429
Charge for the year	-	3	26	29
Disposals	-	(3)	-	(3)
Exchange differences	(2)	(7)	(18)	(27)
At 31 December 2018	26	120	282	428
Charge for the year	-	2	23	25
Exchange differences	-	2	7	9
At 31 December 2019	26	124	312	462
Carrying amount				
At 31 December 2019	**-**	**5**	**30**	**35**
At 31 December 2018	**1**	**7**	**35**	**43**

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

	2019 $'000	2018 $'000
Work in Progress	417	414
Slow moving stock provision	(262)	(200)
	155	**214**

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.

13. Trade and other receivables

	Group		Company	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Current				
Trade debtors	1,249	1,521	4	4
Accrued Income from contracts in progress	121	549	-	-
Other debtors	242	468	14	21
Research and development incentives	258	183	-	-
	1,870	**2,721**	**18**	**25**
Non-current				
Amounts receivable from Group undertakings	-	-	8,969	7,062
Less: Impairment	-	-	(935)	-
	-	**-**	**8,034**	**7,062**

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

Notes to the Consolidated and Company Financial Statements

Accounting policy

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

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.

The average credit period taken on sales of goods is 21 days (2018: 30). 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 expected credit losses.

Due to the nature of the Group's business, potential customers tend to have 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 (2018: 4) customers who each represent more than 5 per cent of the total balance of trade receivables.

SECTION IV: LIABILITIES

14. Financial Liabilities

	Group		Company	
	2019	2018	2019	2018
(a) Trade and other payables	**$'000**	**$'000**	**$'000**	**$'000**
Current				
Trade payables and accruals	609	1,079	30	9
Other payables	1,596	1,579	223	118
Other taxes and social security costs	262	348	-	-
	2,467	**3,006**	**253**	**127**
Non-current				
Trade payables and accruals	-	-	-	-
Trade and other payables-Total	**2,467**	**3,006**	**253**	**127**

Notes to the Consolidated and Company Financial Statements

(b) Borrowings	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Current				
Convertible notes at amortised cost	-	493	-	493
Embedded derivative at fair value	-	108	-	108
Other loans	1,262	1,366	1,269	1,129
	1,262	**1,967**	**1,269**	**1,730**
Non-current				
Convertible notes at amortised cost	1,097	-	1,097	-
Embedded derivative at fair value	320	-	320	-
	1,417	**-**	**1,417**	**-**
Borrowings -Total	**2,679**	**1,967**	**2,686**	**1,730**

(c) Lease liabilities	Group 2019 $'000	Group 2018 $'000	Company 2019 $'000	Company 2018 $'000
Current				
Lease liabilities	108	-	-	-
	108	**-**	**-**	**-**
Non-current				
Lease liabilities	130	-	-	-
	130	**-**	**-**	**-**
Lease liabilities -Total	**239**	**-**	**-**	**-**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

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

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

Convertible notes

On 27 August 2019, the Company raised AUD $2 million (USD 1.398 million) from the issue of Convertible Notes. The key terms of the issue are set out below:

- 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
- The Convertible Notes shall convert into ordinary fully paid shares in the capital of Etherstack plc at a conversion price of AUD$0.30. Up to 6,666,667 fully paid ordinary shares may be issued.
- The Convertible Notes are unlisted

Notes to the Consolidated and Company Financial Statements

The 31 December 2018 balances represent Convertible Notes issued on 30 May 2017. The key terms of this issue are set out below:

- The Convertible Notes are unsecured and unlisted.
- The Convertible Notes shall convert into ordinary fully paid shares in the capital of Etherstack plc at a conversion price of AUD$0.25. Up to 2,980,646 fully paid ordinary shares may be issued.
- The Convertible Notes are predominantly denominated in GBP with some notes denominated in AUD.
- The Notes are Convertible at the note holders' option at any time prior to maturity on 31 December 2019.

On 31 December 2019, 1,290,323 of the 30 May 2017 issued notes were converted into fully paid ordinary shares of the Company and 1,690,323 of the Notes were redeemed by the note holders.

Other loans

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

15. Deferred Revenue

	Group	
	2019	**2018**
	$'000	**$'000**
At 1 January	1,176	954
Deferred during the year	2,355	2,462
Released to the income statement during the year	(2,199)	(2,240)
At 31 December	**1,332**	**1,176**
Current	**1,248**	**1,072**
Non-current	**84**	**104**

16. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

Trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'Financial assets'. The Group's financial assets 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.

Notes to the Consolidated and Company Financial Statements

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 18 and 19 and the Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements

Fair Value Hierarchy

There is one financial liability measured at fair value at 31 December 2019 (2018: one). The financial liability represented the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is $320,000 (2018 $108,000) and the valuation is categorised as Level 3 – Valuation technique.

Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2019	**2018**	**2019**	**2018**
	$'000	**$'000**	**$'000**	**$'000**
Loans and receivables measured at amortised cost				
Cash and cash equivalents	931	51	-	-
Trade and other receivables	1,612	2,538	8,987	7,087
	2,543	**2,589**	**8,987**	**7,087**
Financial liabilities at amortised cost				
Convertible note at amortised cost	1,097	493	1,097	493
Current borrowings at amortised cost	1,262	1,366	1,269	1,129
Trade and other payables	2,205	2,658	253	127
	4,564	**4,517**	**2,619**	**1,749**

Financial liabilities at Fair value through profit and loss (FVTPL)

Embedded derivative at FVTPL	320	108	320	108

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 2019	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 and accruals	-	609	-	-	-	609
Related party loans	-	-	1,262	-	-	1,262
Other payables	-	1,596	-	-	-	1,596
Convertible notes	-	-	-	1,417	-	1,417
	-	**2,205**	**1,262**	**1,417**	**-**	**4,884**

Group: Year ended 31 December 2018	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 and accruals	-	1,079	-	-	-	1,079
Related party loans	-	-	1,366	-	-	1,366
Other payables	-	1,579	-	-	-	1,579
Convertible notes	-	-	601	-	-	601
	-	**2,658**	**1,967**	**-**	**-**	**4,625**

Company: Year ended 31 December 2019	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 and accruals	-	30	-	-	-	30
Related party loans	-	-	1,269	-	-	1,269
Other payables	-	223	-	-	-	223
Convertible Notes	-	-	-	1,417	-	1,417
	-	**253**	**1,269**	**1,417**	**-**	**2,939**

Company: Year ended 31 December 2018	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 and accruals	-	9	-	-	-	9
Related party loans	-	-	1,129	-	-	1,129
Other payables	-	118	-	-	-	118
Convertible Notes	-	-	601	-	-	601
	-	**127**	**1,730**	**-**	**-**	**1,857**

Notes to the Consolidated and Company Financial Statements

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.

The Group may use derivative financial instruments to hedge these risk exposures although no derivatives were used in 2019 (2018 $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:

		2019 $'000	2018 $'000
Trade and other receivables	- Current (Note 13)	1,870	2,721
	- Non-Current (Note 13)	-	-
Cash and cash equivalents		931	51
		2,801	2,772

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.

The Company's exposure to credit risk is limited to the amounts advanced to subsidiary companies $8,969,000 (2018 $7,062,000). The Company assesses the recoverability of these receivables by reference to the cash flow forecast prepared for assessing the recoverable amount of the intangible assets and judgements of the probability of defaults and the loss in the event of default.

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, and 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, Europe, North America, Australia, and Japan 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 have trade and other receivables and trade and other payables denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. No hedging transactions were entered into in 2019 (2018 $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 and Australian dollar exchange rates, with all other variables held constant for the Group. 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.

		Group		Company	
	Change in GBP rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**
2019	+10%	(571)	(210)	531	531
	-10%	571	210	(531)	(531)
2018	+10%	(560)	(208)	(456)	(456)
	-10%	560	208	456	456
	Change in AUD rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**
2019	+10%	(8)	(179)	33	33
	-10%	8	179	(33)	(33)
2018	+10%	(81)	(91)	(31)	(31)
	-10%	81	91	31	31

17. Leases

Lease liabilities are presented in the statement of financial position as follows:

	Group	
	2019	**2018**
	$'000	**$'000**
Current	108	-
Non-current	130	-
Total	**239**	**-**

Notes to the Consolidated and Company Financial Statements

The Group has leases for offices in Australia and Japan. With the exception of short-term leases and leases of low-value underlying assets, leases are reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases of office buildings, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	Number of Right-of-use assets leased	Range of remaining lease term	Average remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Office building	2	1-2.60 years	1.6 years	2	0	1	0

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2019 were as follows:

	Within 1 year	1-2 years	After 2 years
31 December 2019			
Lease payments	135	88	59
Interest charges	(26)	(14)	(3)
Net present values	**109**	**74**	**56**

Additional information on the right-of-use assets is as follows:

	Carrying amount	Depreciation expense	Impairment
31 December 2019			
Office buildings	176	118	-

Notes to the Consolidated and Company Financial Statements

SECTION V: SHARE CAPITAL

18. Called up share capital

	Company 2019 $'000	Company 2018 $'000
Issued, allotted and fully paid		
112,975,636 (2018: 111,685,313) ordinary shares of 0.4p each	652	645

On 31st December 2019, 1,290,323 fully paid ordinary shares were issued on conversion of convertible notes (2018: no shares issued).

The Company has one class of ordinary shares which carry no rights 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.

19. 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 reorganisation on 19 March 2012.

20. Share based payments

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

	2019 Number of share options	2019 Weighted average exercise price (AUD)	2018 Number of share options	2018 Weighted average exercise price (AUD)
Outstanding at beginning of year	2,900,000	0.10	3,987,500	0.36
Granted during the year	-		-	
Forfeited during the year	-		(1,087,500)	0.80
Exercised during the year	-		-	
Outstanding at the end of the year	2,900,000	0.10	2,900,000	0.10
Exercisable at the end of the year	2,900,000		2,900,000	

Notes to the Consolidated and Company Financial Statements

During the year, nil (2018 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 2018 had a weighted average exercise price of AUD 0.10 (2018 AUD 0.10), and a weighted average remaining contractual life of 6.6 years (2018: 7.6 years).

The Group recognized total expenses of $nil (2018 $nil) 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.

21. Earnings/(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:

	2019		2018	
Reconciliation of earnings used in the calculation of earnings per share	**Basic $'000**	**Diluted $'000**	**Basic $'000**	**Diluted $'000**
Net profit/ (loss) attributable to equity holders of the parent for basic earnings	**(871)**	**(871)**	**53**	**53**
Net profit/ (loss) attributable to equity holders of the parent adjusted for the effect of dilution	**(871)**	**(871)**	**53**	**53**
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	111,689	111,689	111,685	111,685
Options*	-	1,692	-	1,088
Weighted average number of ordinary shares adjusted for the effect of dilution	**111,689**	**113,381**	**111,685**	**112,773**
Earnings/ (Loss) per share (cents)	**(0.78)**	**(0.78)**	**0.05**	**0.05**

* options have been excluded from the calculation of diluted earnings per share where they are anti-dilutive.

Notes to the Consolidated and Company Financial Statements

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.

Section VI: Other Notes

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 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*.

	2019 $'000	2018 $'000
Short-term employee benefits	550	535
Share based payments charge		-
Post-employment benefits (defined contribution schemes)	22	21
	572	**556**

Loans to/ from related parties

The Company has provided its subsidiaries with loans at 5% (2018 5%) interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of $8,969,000 (2018 $7,062,000) 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 $451,000 (2018 $579,000) of operating expenses were paid for by Group companies.

Directors and Director-related entities

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

- Net repayment of $6,000 (2018 advance to company of $5,000) was made by the company.
- Interest accrued in the period is nil.

At 31 December 2019, $187,000 remains owing to David Deacon. The loan amount due being $187,000 (31 December 2018 $177) 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 year:

- Loans of $33,000 (2018 $35,000) were advanced and $286,000 repayments were made.
- Opted to convert Convertible notes into equity of $262,000 (2018 Nil)
- Interest of $64,000 (2018 $79,000) was accrued for the year.
- Interest of $20,000 (2018 $24,000) was accrued on Convertible notes held.

At 31 December 2019, $1,017,000 (2018 $1,412,000) is owing to Peter Stephens. The loan of $466,000 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being $551,000 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Notes to the Consolidated and Company Financial Statements

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

- Loans of $36,000 (2018 $37,000) were advanced and no repayments were made.
- Interest of $2,000 (2018 $2,000) was accrued for the year.

At 31 December 2019, $281,000 (2018 $245,000) is owing to Paul Barnes. The loan of $24,000 is unsecured, not subject to specific repayment terms and bears interest at 10% pa. The remainder of the amount due being $257,000 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Loans from Other related parties

In 2018 the consolidated entity entered into formal, short term, interest bearing loan agreements with a wholly owned subsidiary of iSignthis Ltd of which Mr Scott Minehane is a director. At 31 December 2018 an amount of $228,000 was payable. This was repaid in January 2019 in accordance with the terms of the agreement.

The transactions were completed at arm’s length.

Notes to the Consolidated and Company Financial Statements

23. Reconciliation of borrowings arising from financing activities

Group	**Current $'000**	**Non-current $'000**	**Total $'000**
At 1 January 2019	**1,967**	**-**	**1,967**
Cash-flows:			
Proceeds of convertible note issues	-	1,398	1,398
Repayments of loan	(549)	-	(549)
Non-cash:	-	-	-
Interest on convertible notes	45	93	138
Interest on borrowings	69	-	69
Amortisation of convertible notes	162	-	162
Revaluation of Embedded derivative	(108)	(38)	(146)
Convertible notes converted into equity	(263)	-	(263)
Reclassification	(98)	(39)	(137)
Exchange difference	37	3	40
At 31 December 2019	**1,262**	**1,417**	**2,679**
At 1 January 2018	**1,757**	**246**	**2,003**
Cash-flows:			
Proceeds of loan	245	-	245
Repayments of loan	(491)	-	(491)
Non-cash:			
Interest on convertible notes	55	-	55
Interest on borrowings	91	-	91
Amortisation of convertible notes	-	152	152
Revaluation of Embedded derivative	-	62	62
Reclassification on convertible note issue	460	(460)	-
Exchange difference	(150)	-	(150)
At 31 December 2018	**1,967**	**-**	**1,967**

Company	**Current $'000**	**Non-current $'000**	**Total $'000**
At 1 January 2019	**1,730**	**-**	**1,730**
Cash-flows:			
Proceeds of convertible note issues	-	1,398	1,398
Repayments of loan	(308)	-	(308)
Non-cash:			
Interest on convertible notes	45	93	138
Interest on borrowings	69	-	69
Amortisation of convertible notes	162	-	162
Revaluation of Embedded derivative	(108)	(38)	(146)
Convertible notes converted into equity	(263)	-	(263)
Reclassification	(98)	(39)	(137)
Exchange difference	40	3	43
At 31 December 2019	**1,269**	**1,417**	**2,686**
At 1 January 2018	**1,742**	**246**	**1,988**
Cash-flows:			
Repayments of loan	(484)	-	(484)
Non-cash:			
Interest on convertible notes	55	-	55
Interest on borrowings	91	-	91
Amortisation of convertible notes	-	152	152
Revaluation of Embedded derivative	-	62	62
Reclassification on convertible note issue	460	(460)	-
Exchange difference	(134)	-	(134)
At 31 December 2018	**1,730**	**-**	**1,730**

Notes to the Consolidated and Company Financial Statements

24. Changes in accounting policy and disclosures

The group has adopted IFRS 16 Leases and IFRIC 23 Uncertain tax positions in the current financial year. IFRS 16has a significant impact on the Group's results and financial position.

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

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 $295,000
- trade and other payables– decrease by $42,000
- lease liabilities – increase by $351,000

The net impact on retained earnings on 1 January 2019 was a decrease of $14,000.

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.

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 $415,000 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

IFRIC 23 Uncertain tax positions
The Group has adopted IFRIC 23 from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 'Income Taxes' in circumstances where uncertain tax treatments exist. The interpretation requires:

- the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty;
- the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value.

In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

IFRIC 23 was adopted using the modified retrospective approach and as such comparatives have not been restated.

There was no material impact on the financial statements following adoption of this interpretation.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group’s financial statements.

25. Events after balance date

After the balance date, agreement was reached with a Convertible Note holder whereby the liability of $325,000 for matured Convertible notes and interest was settled by:

- The issue of 516,129 new shares for consideration of $104,000
- Cash repayment of $104,000; and
- The issue of 499,377 new Convertible notes with the following key terms:
  - AUD 0.30 face value and convertible into 499,377 fully paid ordinary shares
  - Maturity is 22 August 2021
  - The notes are convertible at the note holders’ option at any time prior to maturity
  - The notes may be repaid prior to maturity within 12 months of issue with the agreement of the Company and the note holder, or after 12 months at the option of the Company.

ASX additional information

Shareholdings

The issued capital of the Company as at 20 March 2020 is 113,491,765 fully paid ordinary shares.

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

Ordinary

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	9	2,783	0.0%
1,001 – 5,000	365	611,409	0.5%
5,001 – 10,000	24	187,102	0.2%
10,001 – 100,000	55	1,990,592	1.8%
100,001 and over	34	110,699,879	97.5%
Total	**487**	**113,491,765**	**100.0%**

As at 20 March 2020 there were 316 shareholders holding less than a marketable parcel of AUD $500.

Substantial shareholders as at 13 March 2020

As at 20 March 2020 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 of more of the total number of votes.

	No of shares	% of issued capital
MR DAVID DEACON	48,241,850	42.4
MR PETER STEPHENS	17,322,587	15.3
LYNTON PROPERTIES PTY LIMITED	9,080,000	8.0
MR PAUL BARNES	6,850,000	6.0
	81,494,437	**71.8%**

ASX additional information

Top 20 shareholders as at 20 March 2020

		No of shares	% of issued capital
1	MR DAVID DEACON	48,241,850	42.5%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	28,835,833	25.4%
3	MR PAUL BARNES	6,850,000	6.0%
4	LACHMAC PTY LTD	4,800,000	4.2%
5	MR BILL EASON	3,566,129	3.1%
6	VERONICA STEPHENS	3,500,000	3.1%
7	MR ANDREW SCOTT	2,231,670	2.0%
8	GIGA PALACE LIMITED	1,909,994	1.7%
9	IN-Q-TEL INC	998,675	0.9%
10	JOHN DEACON	950,000	0.8%
11	MR JEREMY JON DAVIES	909,000	0.8%
12	RIDGEPORT HOLDINGS PTY LTD	827,000	0.7%
13	RT HON JAMES NETHERTHORPE	787,500	0.7%
14	MR DOUGLAS CHAPMAN	596,125	0.5%
15	MR ADAM RICHARDS	563,500	0.5%
16	MR EVAN SCOTT	562,500	0.5%
17	MR PETER SQUIRES <P&MSFT A/C>	498,088	0.4%
18	MR HUGH COOKSON	467,500	0.4%
19	ISIGN THIS LTD	410,000	0.4%
20	BEAS INVESTMENTS PTY LTD	330,455	0.3%
	TOTAL	**107,835,819**	**95.0%**

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.