etherstack
wireless innovation

Financial Report

FOR THE YEAR ENDED 31 DECEMBER 2021

Etherstack plc

AND CONTROLLED ENTITIES
COMPANY REGISTRATION NUMBER 07951056
ARBN 156 640 532

Authorised for release by David Deacon, CEO and David Carter, CFO

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

With a particular focus in the public safety, defence, utilities, transportation and resource sectors, Etherstack's technology and solutions can be found in radio communications equipment used in the most demanding situations.

Contents

Page

About Etherstack

WHAT DOES ETHERSTACK TECHNOLOGY DO?

Etherstack is a leading licensor of innovative wireless technology and solutions provider for mission-critical communications

Etherstack technology enables push-to-talk (PTT) communications for essential services, within and across advanced digital land mobile radio (LMR), cellular and satellite networks

Features of the business:

- Globally diversified client base across various industries
- Over 20+ years of complex IP underpinning software
- Cellular revenues similar to SaaS-like high gross margin revenues
- High margin core network products
- Samsung global teaming partnership drives additional growth
- Solutions typically include long term

Etherstack leverages our innovative technology and IP that is adaptable across key platforms; Digital Land Mobile Radio (LMR), Missional Critical Push-to-talk (MCPTX) over cellular and Satellite PTT networks as well as across multiple customers

etherstack PTT TECHNOLOGY

Digital Land Mobile Radio (LMR) networks	Mission Critical Push to Talk (MCPTX) over cellular networks (4G & 5G)	Satellite Push to Talk (PTT) networks
• Wireless communication software • Used by public safety, utilities, transportation and resources sectors • Increasing number of network deployments • Core network elements with SaaS-like high margins • Long term support contracts driving recurring revenues	• Government regulatory tailwinds the catalyst for transforming public safety communications • Solution enables LMR users expanded coverage from cellular networks – hybrid networks • Cellular networks to drive innovation in the sector due to greater transference of data including voice and images • First contract under Samsung Global Teaming Arrangement • Other opportunities advancing rapidly	• Falling satellite tariff costs the catalyst for change in the communications sector • Satellite enables extended radio coverage outside urban areas • Developing secure software for satellite communications over past 3 years • Opportunity to incorporate Etherstack technology into satellite communication suppliers

About Etherstack

CUSTOMER CASE STUDIES -

"Initial wins lead to near term growth and long term support revenues"

WESTERN AUSTRALIA IRON ORE NETWORK

Large resources projects require "government grade" communication systems for operations and safety in hazardous environments

- Potential to rollout to 50+ other mining sites globally over the next 10 years as existing networks renewed
- Recurring SaaS-like support revenues expected at 15 – 20% pa

2020 - Contracted to provide software to deliver the first stage of a multi-stage P25 digital LMR network project:

- Initial order value A$400,000
- End user is Rio Tinto in Pilbara, WA

2021

- A$600,000 Follow-on order announced
- Additional expansion order received

2022

- Further business development underway at both existing and new sites
- Long term support expected to commence in 2022

Source:
(CC BY-SA 3.0) RMPC

ROYAL CANADIAN MOUNTED POLICE

The Royal Canadian Mounted Police (RCMP) are the federal and national police service of Canada.

2019 – Contracted for delivery, commissioning and on-going support of a secure encrypted digital radio network spanning 26 sites:

- Initial order value CAD$1.7 million
- RCMP network will be Etherstack's second largest network in Canada (after 82-site ATCO Electric network in Alberta)

2020

- Network deployed in Q4

2021

- Additional sites delivered

2022

- Additional sites expected
- Long term support revenues planned to commence with expected commercial life of 15 years
- Currently targeting additional new radio network in separate territory

Strategic Report

2021 HIGHLIGHTS

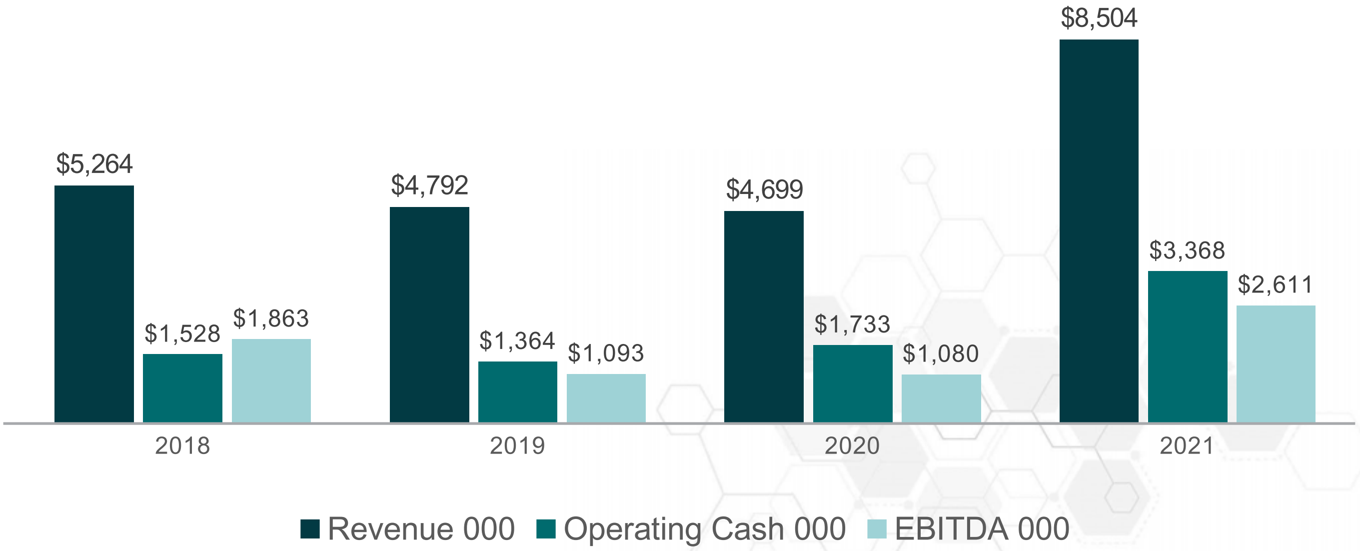
(All amounts are in USD unless otherwise stated)

Revenue growth: revenue for 2021 is $8.504 m representing a $3.805m or 81% increase over 2020 revenue of $4.699m

EBITDA is $2.611m
up from $1.080m in 2020, a 142% increase [1]

NPAT is $1.455 m, Statutory profit after tax is an increase of $1.372m over 2020's underlying NPAT [2] of $83k or a $3.755m increase over 2020 statutory NPAT.

Strong Positive Operating Cashflow: Net operating cash inflow of $3.368m in 2021 an increase of $1.635m over 2020. Four consecutive years of strong operating cash inflows.



[1] EBITDA and Underlying profit/(loss) from ordinary activities after tax, are non-IFRS measures used by management of the company to assess the operating performance of the business. The non-IFRS measures are not subject to audit.

EBITDA is statutory net profit before tax adjusted to remove net finance costs, depreciation and amortisation.

[2] Underlying (Loss)/Profit from ordinary activities after tax attributable to members in 2020 excludes an extraordinary Non-cash Finance charge of $2,383 as detailed in the 2020 half year financial report. The reasons for excluding this item from the underlying result are further explained in the commentary below. There are no adjustments to Statutory profit in 2021

Strategic Report

2021 HIGHLIGHTS

Strategic Business Wins Across Public Safety, Defence & Resource Sectors

- In July 2021, the company announced the first carrier deal with Samsung to supply Etherstack technology to Samsung's first carrier customer. The contract value is $8.5m. In collaboration with Samsung, Etherstack is currently pursuing multiple opportunities with other major carriers.
- Initial direct contract with AT&T announced in September 2021.
- In 2020, the company entered an initial deal with an integration partner to deliver a digital radio network to a Rio Tinto project in Western Australia. In May 2021, the company received the first follow-on order followed by subsequent orders in H2 2021 and the company expects further expansion in 2022 and beyond.
- Government business including Technology and services contracts with UK Ministry of Defence, Australian Department of Defence and the Australian Department of Home Affairs.

Etherstack Activities and Differentiation

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

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. Additionally, Etherstack develops network softswitching software that allows network services to be deployed in data centres such as those used by telecommunications carriers.

Etherstack also 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 products and networks; 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 tactical communications equipment.
- Technology licences and royalties; where Etherstack licenses its software and designs to companies who manufacture telecommunication equipment primarily for government public safety agencies and utilities.
- System solution sales; where Etherstack sells its products and software and then provides ongoing support services.
- Customisation and Integration services; and
- Ongoing Support services provided to the customer.

Strategic Report

While the underlying suite of intellectual property is largely common, Etherstack's technology can be used in different types of wireless networks, as illustrated on page 3.

Etherstack has invested over $25 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 "push-to-talk" over satellite and 4G/5G products aimed at the public safety market

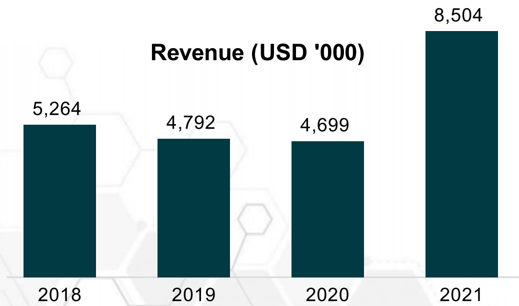
Etherstack seeks to differentiate our Specialised Radio Product offerings by:

- 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

Revenue (All amounts are in USD and $000 unless otherwise indicated)

Revenue for 2021 is $8,504. This is an 81% increase over 2020 revenue of $4,699 and a step change over the recent past, as shown in the graph.

The key driver has been increased project activity as outlined below however there has also been an increase in recurring support revenues offsetting a decrease in royalties.



Graph 1 – Revenues 2018 to 2021

Project Revenues

Project revenues comprising Licence fees, installation/integration and supply of wireless communications technology were $6,227 in 2021 compared to $2,368 in 2020. As noted in the past Etherstack's project revenues can be impacted by a small number of large projects and as a consequence, revenue can be lumpy. In 2021, there has been a significant increase in these revenues driven by project activities with Samsung and Australian Defence projects as well strong revenues in the Land Mobile Radio (LMR) sector in North America and Australia.

Strategic Report

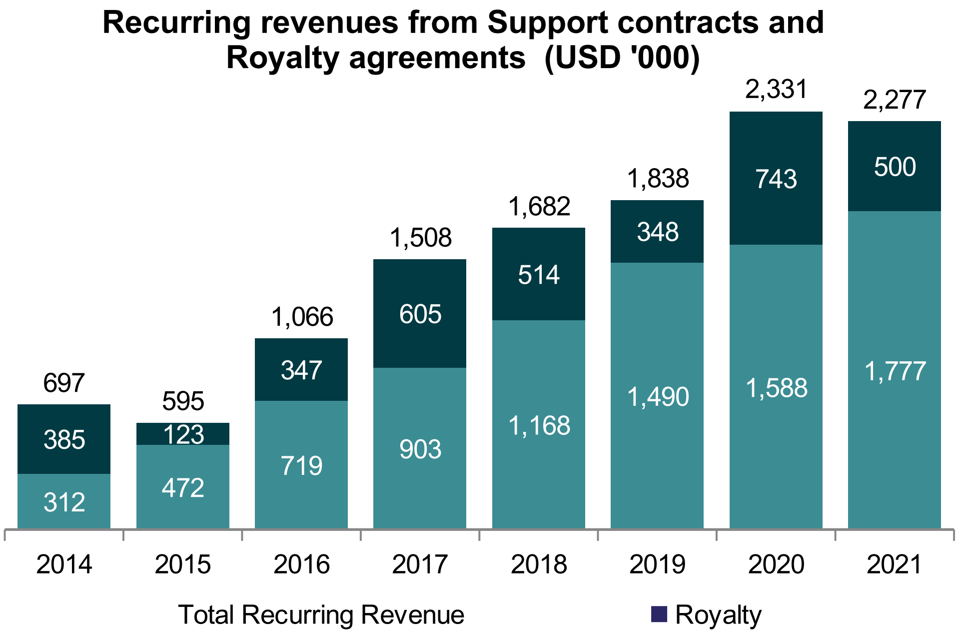
Recurring revenues

Aggregate recurring revenues comprising Royalties and Support revenue streams are $2,277 for 2021 compared to $2,331 for 2020.

Within this aggregate recurring revenue amount:

- Support revenues have increased from $1,588 in 2020 to $1,777 in 2021. This is a $189 or 12% increase.
- Royalty revenues have dropped from $743 to $500 in 2021.

Notwithstanding the royalty fluctuation in 2021, aggregate recurring revenue has increased 227% over the last 7 years from $697 in 2014 to $2,277 in 2021.



Graph 2 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2021

Recurring revenues contributed 27% of total revenue in 2021 (2020: 50%). As previously noted, this contribution can fluctuate, however, over the medium term, recurring revenues have grown in both absolute terms, from $697 in 2014 through to $2,277 in 2021 and, as a percentage of total revenue, 10% in 2014 through to 27 % in 2021.

Recurring revenues reduce both overall revenue volatility and cash flow volatility and reduce dependence upon a small number of large contracts where timing of revenue recognition is difficult to accurately forecast given the scale and nature of the projects and end users.

Support revenues

Support revenues increased in 2021 to $1,777 from $1,588 in 2020 following the rollout of additional digital radio networks in 2021 as well as incremental growth to existing supported networks and continued high levels of contract renewal. Support revenues have increased from $312 in 2014 to $1,777 in 2021 – a compound annual growth of 28% per annum over 7 years.

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 digital radio base stations and handsets.

Royalty revenues decreased in 2021 from $743 to $500. The decrease follows a sharp increase in 2020 when royalty revenues increased from $348 to $743 as a result of a new royalty agreement with a European manufacturer which included a minimum guaranteed royalty of $478.

Royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products integrate Etherstack technology however royalty revenues can also increase when Etherstack signs a new royalty agreement and the licensee provides minimum guaranteed volumes as noted above.

Strategic Report


Source: cc-by-4.0 © Queensland Fire and Emergency Services

Strategic Business Wins Across Public Safety, Defence & Resource Sectors

- In July 2021, the company announced the first carrier deal with Samsung to supply Etherstack technology to Samsung's first carrier customer. The contract value is $8.5m comprising licences, integration and support. The initial implementation will be delivered over 2021, 2022 and 2023 with support revenues commencing in 2022. In collaboration with Samsung, Etherstack is currently pursuing multiple opportunities with other major carriers for the same MCPTX technology.
- Initial direct contract with AT&T announced in September 2021. While modest in size, $420, the real value is the opportunity to develop a lasting relationship with the world's largest telecommunications carrier.
- In 2020, the company entered an initial deal with an integration partner to deliver a digital radio network to a Rio Tinto project in Western Australia. In May 2021, the company received the first follow-on order followed by subsequent orders in H2 2021 and the company expects further expansion in 2022 and beyond.
- Government business including Technology and services contracts with UK Ministry of Defence, Australian Department of Defence and the Australian Department of Home Affairs.

Result for 2021

Profit after income tax is $1,455 compared to a Loss after income tax of $2,300 in 2020.

This improvement in statutory profit/loss after tax is due to the combined effects of:

- Increased revenues, as outlined above
- A 2020 non cash finance charge of $2,383 arising from the sharp increase in the Company share price on 30 June 2020 and its effect on the convertible notes valuation. There was no repetition of this charge in 2021.
- Gross margin increased from 57% in 2020 to 73% in the current year as a result of the changed revenue mix. Gross margin varies significantly depending on the mix of Etherstack hardware, software and services content, which are at a higher margin, and third-party products where the margins earnt are lower. The four-year average gross margin is 68%.
- Administrative costs increased overall due to:
    - » Increased employment related costs reflecting an increased headcount. In particular the non-cash expenses connected to Etherstack's incentive programmes and recruitment costs as the Group increased engineering personnel.
    - » Increased depreciation costs as capital expenditure has increased and depreciation of right of use assets has increased as the company requires additional capital equipment and facilities to support the increased scale of operations.
    - » Increased travel and marketing costs. The 2021 increase follows sharply reduced spend in 2020 as a result of COVID-19 travel constraints.
    - » Reduced amortisation charge in 2021 of $1,058 compared to $1,183 in 2020. There is no change to the amortisation rates however a number of projects became fully amortised leading to a reduced amortisation charge.

- The Etherstack group has operations in Australia, United States, United Kingdom, Europe and Japan and as a consequence is exposed to gains and losses from foreign currency fluctuations between the reporting currency, USD, and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2021 there was a currency translation loss $543 compared to a gain of $127 in 2020.
- Finance costs, excluding the revaluation of convertible notes noted above, have not changed significantly. There is a slight increase related to the interest expense on leased premises connected to the new office in Sydney.
- Increased recovery from Research & Development incentives, in line with the increased investment into intellectual property assets in 2021. The income tax credit in 2021 is $391 vs $321 in 2020.

EBITDA

The Directors consider EBITDA to be a useful measure of performance as it excludes the significant non-cash amortisation expense and it also excludes the exceptional 30 June 2020 expense of $2,383 on revaluation of the convertible note embedded derivatives.

EBITDA has increased to $2,611 from $1,080 in 2020. The key reasons for the increased EBITDA are summarised above.

	2021	2020
Statutory profit/(loss) after tax	1,455	(2,300)
After tax effect of:		
Depreciation	66	33
Depreciation of right-of-use assets	257	120
Amortisation and impairment	1,058	1,183
Interest and embedded derivatives revaluation and amortisation	166	2,365
Income tax	(391)	(321)
EBITDA	**2,611**	**1,080**

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 $2,902 in the current year compared to $1,401 in 2020. Etherstack has now invested in excess of $25 million 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

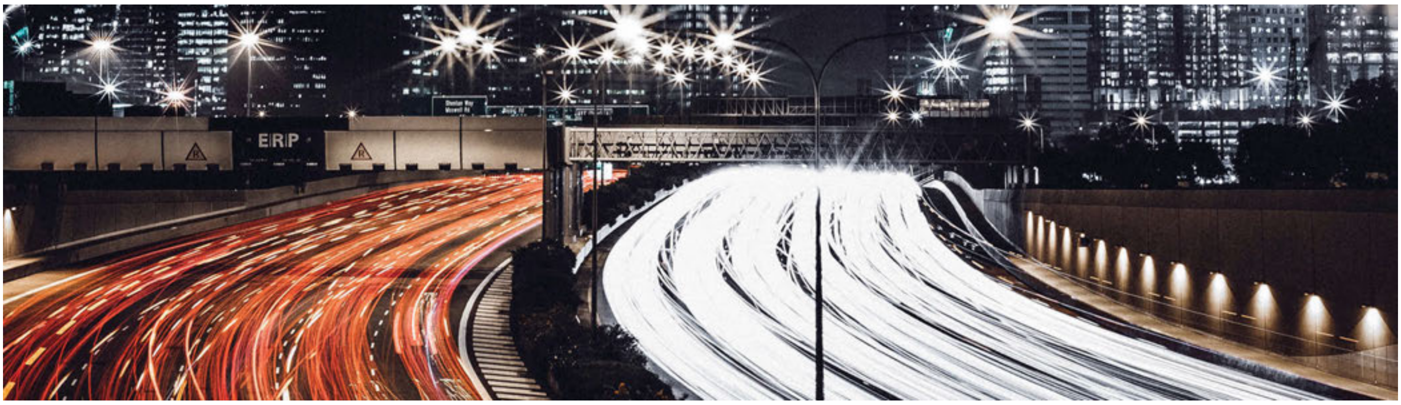
The primary performance indicator for the Group continues to be revenue. Current year consolidated revenue is $8,504 compared to $4,699 in 2020. The major reasons for the increased revenues have been outlined above.

The second key performance indicator is recurring revenues representing royalty revenues and revenues from support contracts. These revenues are important as they reduce reliance on project-based revenues which, although significant, can be volatile in nature.

- Support revenues have increased from $1,588 in 2020 to $1,777 in 2021. This is a $189 or 12% increase.
- Royalty revenues have dropped from $743 to $500 in 2021

Over the last 7 years aggregate recurring revenue has increased 227% over the last 7 years from $697 in 2014 to $2,277 in 2021 and the Groups' expectation is that royalty and support 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.

Strategic Report



Another key performance indicator for the Group is the investment in the development of intellectual property assets. As noted above, Etherstack invested $2,902 (2020 $1,401) representing 34% (2020:30%) of its revenue into intellectual property development in 2021.

2021 Overall

Etherstack is generating solid positive operating cash, has a strong EBITDA, significantly improved balance sheet and positive NPAT. External debt has been extinguished. Management believe the Company is poised for growth.

In June 2020, the Company announced a Global Teaming Agreement with Samsung in relation to the supply of certain Etherstack technologies to Samsung for use in the global telecommunications carrier market.

By June 2020, Etherstack and Samsung were already co-operating on multiple carrier pursuits in an emerging area of technologies related to the global public safety/first responder markets. The agreement was to formalise that partnership so that both companies could commit significant further resources in the joint development and marketing of solutions incorporating their respective technologies.

In July 2021, Etherstack announced its first carrier win with Samsung totalling $8.5m. The vast majority of the value of this initial contract is expected to be delivered and recognised during FY22-FY24, with additional non-contracted long term support revenues expected from FY25 onwards. The revenue from this single carrier contract will materially underpin the Company's finances over the next 3 years. Additional carrier wins are expected to provide a significant uplift in the Company's future profitability.

Etherstack announced two significant new Australian Department of Defence projects in late 2020 and early 2021 totalling AUD$4.6m. Work on the smaller contract was materially completed in late 2021 and the remainder of the larger contract is expected to be mostly completed during the current 2022 financial year. The Company has other pursuits underway and has previously advised the market of its positive exposure to both Australian defence and public safety infrastructure spending.

Globally, as a result of the Covid 19 pandemic and its associated economic impact, management believe that unprecedented global stimulus spending will be directed to health, emergency services, infrastructure, public safety and security projects. Focus on sovereign supply chains and technology sourcing create an excellent background environment for Etherstack to operate in.

The Board looks forward to 2022 with confidence.

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. However, the impact of individually significant contracts remains in existence at the balance sheet date.

- **Technology risk**

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

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

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

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

- **Economic and exchange rate risk**

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

Strategic Report

- **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:

- Project delivery timeframes have been extended as a consequence of COVID-19 measures and may continue to be extended however alternative arrangements have been made for delivery of projects and to date effective workaround arrangements are in place for all projects in progress. Notwithstanding the 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 routinely worked remotely pre- COVID-19 and the nature of the work, being software development, means the majority can continue to work remotely on a full time or part time basis 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.

Notwithstanding the above, a very high degree of caution will continue to 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

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 previously Head of European Equities Sales at Salomon Brothers and Credit Lyonnais. 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 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 and Chairman of Noble Rot Fine Wines.

He has an MA in Jurisprudence from University of Oxford and qualified and practised as a Barrister in 1978-82.

Peter has been on the board of Etherstack Wireless 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 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, telecommunication sectors and more recently 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 (now Velocys Technologies Limited) where he served as the Executive Finance Director, he was also the Chairman of Tristel plc between 2018 and 2019 and in the establishment of Amersham Investment Management Limited which is both authorised & regulated by the FCA as an Investment Management Firm.

Paul is a Fellow of the Association of Chartered Certified Accountants 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), Asian Development Bank (ADB), ASEAN, GSMA, Australian Competitive Carriers Coalition ('Commpete'), SDPPI (Indonesia's spectrum regulator), ARCIA, Macquarie Telecom, 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 the ITU Report "*Pandemic in the Internet Age: From second wave to new normal, recovery, adaptation, and resilience*" (May 2021). Forthcoming papers include ITU Study of Asia-Pacific regional trends on providing access to IMT bands for mobile broadband and WPC report on the partitioning of the 6 GHz band in Asia-Pacific. He also recently presented a four-part APT webinar series entitled Allocation and Licensing of Spectrum for 5G in Asia-Pacific.

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 25 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

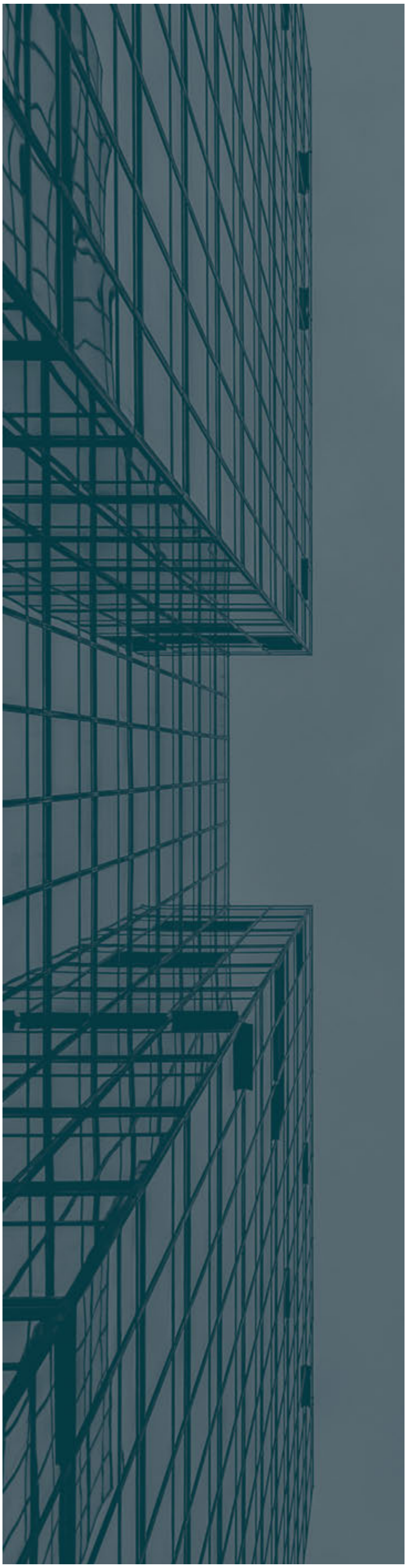
David Carter – Chief Financial Officer and Company Secretary

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 2011.

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

Company Directory



Company Registration No. 07951056

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 Minehane (Non-Executive Director)

Company Secretaries

Paul Barnes FCCA (United Kingdom)

David Carter (Australia)

United Kingdom Registered Office

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

Australian Office

93A Shepherd St
Chippendale, NSW, 2008
Australia

Auditor

Grant Thornton UK LLP
Statutory Auditor
London, UK

Stock Exchange Listing

Australian Securities Exchange
(Code: ESK)

Share Registrars

Computershare Investor Services Pty Limited
452 Johnston Street
Abbotsford, VIC, 3067
Australia

Computershare Investor Services plc
The Pavilions, Bridgwater Road
Bristol BS99 6ZZ
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 2021. All amounts are in USD $000 unless otherwise indicated.

This report should be read in conjunction with the Strategic Report on pages 5 to 13.

1. Board of Directors and Officers of the company

The names of the Directors who held office during the 2021 year and to the date of this report are:

Director Name	Position	Appointed
Peter Stephens	Non-Executive Chairman	2 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	2 May 2012

The joint company secretaries are Paul Barnes and David Carter.

2. Results

The Group recorded a profit after tax for the year of $1,455 (2020 loss of $2,300).

Earnings/(Loss) per share

Basic earnings per share from continuing operations of 1.12 US cents in 2021 compares to 2020 Basic loss per share from continuing operations of 1.96 US cents.

3. Going Concern

For the year ending 31 December 2021, and through to the date of this report, the Group maintains a strong cash position. Based on current and forecasted performance, including consideration of the impacts of Covid 19, the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2021 (2020: $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.

Report of the Directors

6. Auditor

Grant Thornton UK LLP were appointed as auditors of Etherstack plc at the Annual General Meeting in June 2021 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

16 March 2022

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 create 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 and resource companies. The Board has adopted a corporate governance framework, based upon ASX Corporate Governance Principles, which it considers to be suitable given the size and strategy of the Company and its operating environment.

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 2021.

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 highest 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.

Report of the Directors

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

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

Principle 2: Structure the board to add value

Structure of the Board

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

Mr Peter Stephens, Chair – Non-Executive Director

Mr Paul Barnes – Independent, Non-Executive Director

Mr Scott Minehane – Independent, Non-Executive Director

Mr David Deacon – Chief Executive Officer and Executive Director

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

The skills, experience and expertise of each Director are set out on pages 14 and 15. 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 5.2% 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.

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2021 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.

Report of the Directors

Operation of the Board

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

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

	Board meetings		**Audit and Risk Committee**		**Remuneration Committee**		**Nomination Committee**	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Peter Stephens	6	5	5	4	1	1	1	1
Paul Barnes	6	6	5	5	1	1	1	1
David Deacon	6	6						
Scott Minehane	6	6	5	5	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 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); 34 Employees: 2 female, 32 male

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

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

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

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

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

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, 4 meetings of the Committee were attended by the external audit partner and, by invitation, the Chief Executive Officer and the Chief Financial Officer attended 5 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.

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 2021.

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".

Report of the Directors

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 year in accordance with the periodic performance evaluation process.

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/performance rights

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

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

Remuneration policy for Non-Executive Directors

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

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:

2021	Salary/fees	Long-term benefits Superannuation	Deferred Equity Compensation (Note1)	Total
	USD	USD	USD	USD
Executive Directors				
David Deacon	260,000	4,818	39,142	303,960
	260,000	4,818	39,142	303,960
Non-Executive Directors				
Peter Stephens	55,146	-	3,914	59,060
Paul Barnes	58,510	-	3,914	62,424
Scott Minehane	46,587	4,542	3,914	55,043
	160,243	4,542	11,742	176,527
TOTAL	**420,243**	**9,360**	**50,884**	**480,487**

Report of the Directors

2020	Salary/fees	Long-term benefits Superannuation	Deferred Equity Compensation (Note1)	Total
	USD	USD	USD	USD
Executive Directors				
David Deacon	260,000	1,968	-	261,968
	260,000	1,968	-	261,981
Non-Executive Directors				
Peter Stephens	49,013	-	-	49,013
Paul Barnes	52,067	-	-	52,067
Scott Minehane	39,882	3,789	-	43,671
	140,962	3,789	-	144,751
TOTAL	**400,962**	**5,757**	**-**	**406,719**

Note1: The amount disclosed is the amount of the fair value of rights and options recognised as an expense in each reporting period. The ability to exercise the rights and options is subject to vesting conditions

Directors' interests

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

	31 December 2021		31 December 2020	
Director	**Ordinary Shares**	**Performance rights**	**Ordinary Shares**	**Performance rights**
David Deacon	48,241,850	1,500,000	48,241,850	0
Peter Stephens	17,677,651	150,000	17,382,587	0
Paul Barnes	6,850,000	150,000	6,850,000	0
Scott Minehane	81,875	150,000	81,875	0

Report of the Directors

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 UK-adopted International accounting standards in conformity with the requirements of the Companies Act 2006. 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 UK-adopted International Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The Directors confirm that:

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

16 March 2022

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 2021, which comprise the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement 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 accounting standards in conformity with the requirements of the Companies Act 2006 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006;
- 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included:

- audit of cash and receivables as at 31 December 2021;
- audit of current year performance;
- Evaluating of projections for the period until March 2023, including challenging key assumptions and corroborating these assumptions to supporting documents;
- checking of sensitivity analysis performed by management;
- checking of accuracy of projections by comparing with historical forecast;
- Evaluating post balance sheet events.

Independent auditor's report to the members of Etherstack plc

We note that the group and the parent is a single cash generating unit and we observe that the group has a cash balance of $3m as at 31 December 2021 and operating cashflow of $3.4m for the year ended 31 December 2021. We also noted that the group has performed well as compared to last year and has realised a profit in the current year with expectations for continued profitable growth.

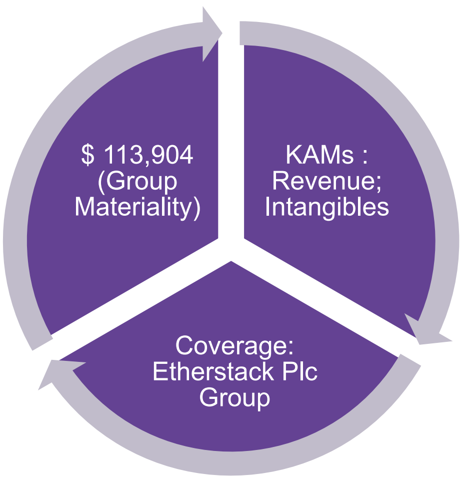
In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and analysed how those risks might affect the group's and the parent company's financial resources or ability to continue operations over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the directors with respect to going concern are described in the 'Responsibilities of directors for the financial statements' section of this report.

Grant Thornton



Overview of our audit approach

Overall materiality:

Group: $113,904 which represents approximately 1.3% of the group's revenue at the planning stage of the audit.

Parent company: $85,428. Materiality was calculated at 1.5% of total assets as a benchmark which was capped at 75% of the group materiality.

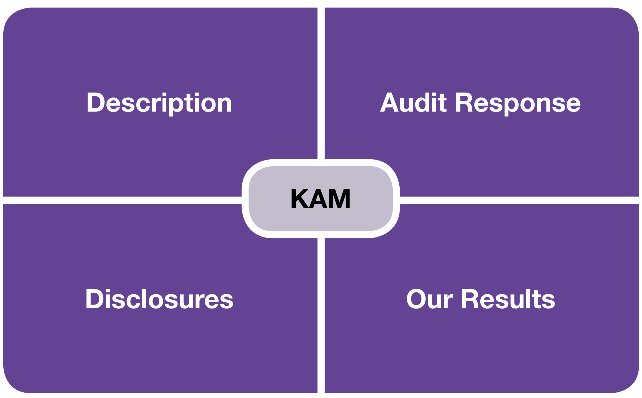
Key audit matters identified remain the same as last year and are as follows:

- capitalisation of development cost;
- carrying value of intangible assets; and
- revenue recognition.

We performed an audit of the financial information of the all components and parent using component materiality (full-scope audit).

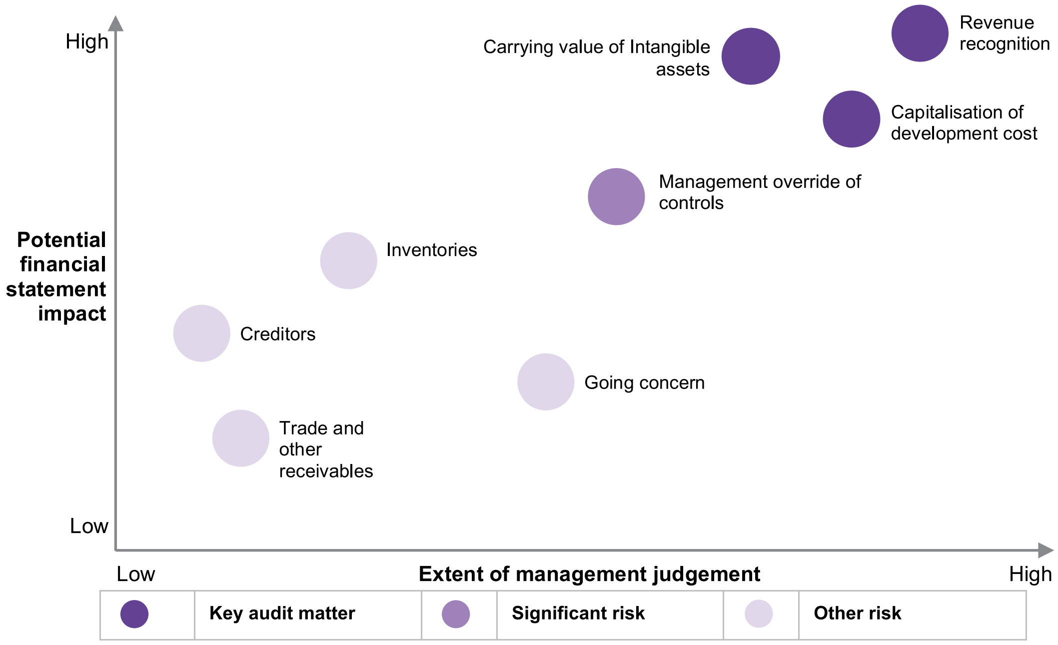
Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.



Independent auditor's report to the members of Etherstack plc

In the graph below, we have presented the key audit matters, significant risks and other risks relevant to the audit.



Key Audit Matter – Group

Capitalisation of development costs

We identified capitalisation of development costs as one of the most significant assessed risks of material misstatement due to error.

At the year end the group had $5.4m of intangible assets (2020: $3.5m) including $5.2m (2020: $3.4m) of capitalised development costs. During 2021 $2.9m (2020: $1.4m) of costs were capitalised.

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.

Relevant disclosures in the Annual Report and Accounts FY 2021

- Financial statements: Note 9, Intangible assets and accounting policies

How our scope addressed the matter – Group

In responding to the key audit matter, we performed the following audit procedures:

- 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;
- checking the accounting policies adopted and disclosures made by management are in line with IAS 38,
- recalculation of the mathematical accuracy of the capitalised amounts;
- agreeing amounts capitalised to supporting evidence including timesheets on a sample basis;
- for a sample of projects, undertaking inquiries with project managers to understand the stage of completion of projects and challenging the cost capitalised and the useful lives of the projects;
- assessment of management's cash flow forecasts, including challenging 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 assessing whether they relate to additional functionality that can be capitalised in accordance with IAS 38.

Independent auditor's report to the members of Etherstack plc

Key Audit Matter – Group	How our scope addressed the matter – Group
	Our results 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 We identified carrying value of intangible assets as one of the most significant assessed risks of material misstatement due to errors. At the year end the group had \$5.4m of intangible assets (2020: \$3.5m) consisting of capitalised development costs, engineering software and customer contract intangibles. 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'. Group is profitable in 2021 however losses were reported in 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 all intangibles are allocated to this CGU. **Relevant disclosures in the Annual Report and Accounts FY 20202021** Financial statements: Note 9, Intangible assets and accounting policies	In responding to the key audit matter, we performed the following audit procedures: • 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 against the requirements of IAS 36; • Understanding from management's assessment that there are no triggers for impairment present and checking management's assessment to evidence that there are no triggers for impairment. • assessing the adequacy of the accounting policies and of disclosures against the requirements of IAS 36; and • evaluating the information included in the impairment assessment through our knowledge of the business gained through checking trading plans and discussions with management; • Evaluating management's impairment assessment on unamortised capitalised cost by undertaking inquiries with project managers and agreeing explanations to supporting information to justify no impairment of those capitalised costs; • Inquiring whether any assets might have been abandoned or will no longer be developed; • undertaking inquiries with project managers to understand the useful lives and utilisation of assets and challenging the cost capitalised and the redundant cost incurred, if any; • comparison of the market capitalisation of the business against the carrying value of the group's single CGU; and • checking post balance sheet events to support the projected cashflows. **Our results** Our testing did not identify any material misstatements with regards to the carrying value of the intangible assets in accordance with IAS 36 Impairment of Assets and the Group's stated accounting policies.

Revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. The revenue cycle might include fraudulent transactions and transactions not recognised in correct accounting period specifically revenue occurred/ deferred around end of the period.

We identified revenue recognition as one of the most significant assessed risks of material misstatement due to fraud.

During 2021 the group generated $8.5m (2020: $4.7m) of revenue. The group has revenue from four income streams; licence fees design development and supply of wireless communications technology, support and royalties.

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 International Financial Reporting Standard (IFRS) 15 'Revenue from Contracts with Customers', 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.

Relevant disclosures in the Annual Report and Accounts FY 20210

Financial statements: Note 2, Revenue and accounting policies

In responding to the key audit matter, we performed the following audit procedures:

- checking the accounting policies adopted and disclosures made by management which are in line with IFRS 15,
- 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;
- 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;
- assessing significant contracts entered into during the period for revenue recognition compliance in accordance with IFRS15;
- obtaining an understanding through inquiries with project manager in respect of the stage of completion of contracts and agreeing information provided by project managers to supporting information;
- testing of the occurrence of revenue during the year from the opening deferred revenue; and
- testing the amounts deferred and accrued at the period end, as well as a check of income recognised in January 2022, to assess whether revenues were recorded in the appropriate period.

Our results

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.

We did not identify any key audit matters relating to the audit of the financial statements of the parent company.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

Materiality was determined as follows:

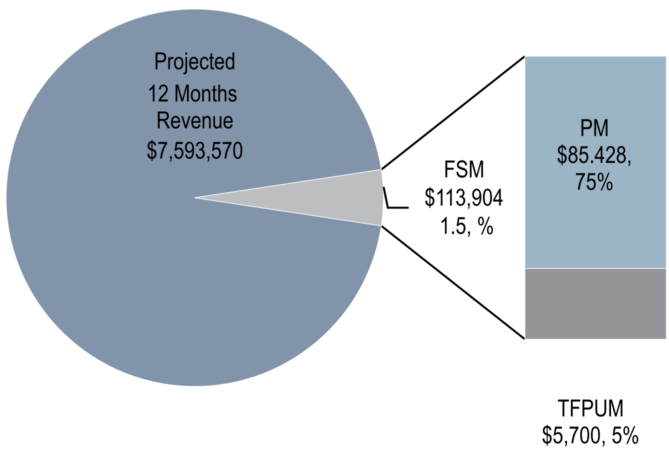
Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$113,904 which is 1.5% of the group's revenue at the planning stage of the audit. We chose not to revise our materiality once the final revenue was known.	$85,428 which is 1.5% of projected total assets capped at 75% of the group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • The selection of an appropriate benchmark; and • The selection of an appropriate percentage to apply to that benchmark. Group has made losses in prior years and the losses have been volatile so it was considered not appropriate to use PBT as benchmark. Revenue is a key performance indicator used by management and shareholders in assessing performance of the business and is a generally accepted audit benchmark and therefore this benchmark is considered the most appropriate. In determining the materiality at planning stage, we considered 1.5% of the extrapolated 12 months figures of year to date 9 months revenue. The actual revenue for 12 months did not require changes to original materiality. Materiality for the current year is slightly higher than the level that we determined for the year ended 31 December 2020 mainly due to the increase in revenue, which has more than offset the decrease in materiality from 2% to 1.5% of the projected revenue.	In determining materiality, we made the following significant judgements: • The parent is a non-trading entity and holds investments in other group trading entities. We calculated materiality using total projected assets as at 31 December 2021 as benchmark but capped materiality to 75% of the group materiality as the standalone materiality was higher than group performance materiality. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2020 based on the increase in group materiality.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	$85,428 which is 75% of financial statement materiality.	$64,071, which is 75% of financial statement materiality.

Independent auditor's report to the members of Etherstack plc

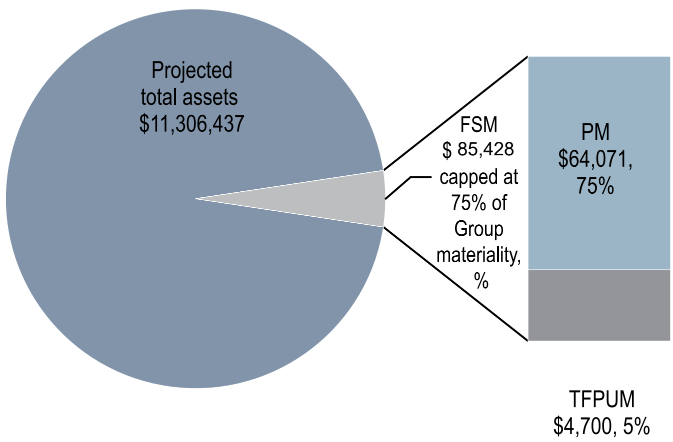
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements We determined that 75% would be an appropriate threshold considering following points: • Group's business at current stage is non complex due to low volume of transactions and operations. Also, there are no complex transactions involved in current year; and • We identified few misstatements in prior year audit which had immaterial impact on overall financial statement.	In determining performance materiality, we made the following significant judgements We determined 75% would be an appropriate threshold considering the following points: • The parent is a non-trading entity and holds investments in other group trading entities. Also, there are no complex transactions involved in the current year; and • No misstatements identified in the prior year audit.
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	\$5,700 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	\$4,300 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Parent company



FSM: Financial statements materiality, PM: FSM: Financial statements materiality, PM: Performance materiality, TFPUM: Tolerance for potential uncorrected misstatements

Independent auditor's report to the members of Etherstack plc

An overview of the scope of our audit

We performed a risk-based audit that requires an understanding of the group's and the parent company's business and in particular matters related to:

- the group 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 engagement 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;
- performing walkthrough tests to assess the design effectiveness of the controls around key audit matters;
- We performed full scope audits of the financial statements of the group and its subsidiaries and the parent company based on the group and component materiality determined;
- all three KAMs were addressed with the full-scope audit procedures with coverage of 100% of revenue and total assets;
- all audit procedures across all components were performed by the group engagement team in line with the scope described; and
- There were no changes to the scope of the audit from prior year.

Other information

The directors are responsible for the other information. The other information comprises the information included in the financial 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.

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.

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

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters 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.

Independent auditor's report to the members of Etherstack plc

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement, set out on page 29, 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below:

- We inquired of management about all the laws and regulations which are required to be complied by the group and based on our inquiry they are required to comply the following laws and regulations:
  - » Etherstack plc is incorporated in the UK and has applied UK adopted International accounting standards in conformity with the requirements of the Companies Act 2006; and
  - » Etherstack is also required to comply with Australian Corporation Law, employment law, Income tax law, Goods and service tax (GST) act, health and safety regulations, data protection act/GDPR, consumer credit licensing, modern slavery act and equivalents in the respective countries of operation
- We understand from management that the finance team ensures compliance with all the laws and regulations. Management review compliance with laws and regulation on a regular basis. They have a compliance schedule to ensure completeness of all compliance obligations which we examined.;
- We inquired from management on any non-compliance, notification from the local governing authorities, legal notices received during the year. We checked their legal and professional expenses ledger to identify any lawyer or other professional fees specifically for any non-compliance,
- As Etherstack plc is listed on the Australian Securities Exchange (ASX) and therefore is required to comply ASX Listing Rules. We assessed whether Etherstack is in conformity with this framework;
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from different parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk;
- Our audit procedures involved: journal entry testing, with a focus on manual consolidation journals, journals with impact on profit value and year end closing journals. In addition, we completed audit procedures to conclude on

the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements;

- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it;
- The engagement team collectively had the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations; and
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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.

Nicholas Page
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 March 2022

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Revenue from Contracts with Customers	2,3	8,504	4,699
Cost of sales		(2,306)	(2,032)
Gross Profit		6,198	2,667
Other income; research & development and COVID-19 incentives	2	121	125
Amortisation and impairment of intangible assets	4	(1,058)	(1,183)
Other administrative expenses	4	(3,488)	(1,992)
Net foreign exchange (losses) / gains	4	(543)	127
Total administrative expenses		(5,089)	(3,048)
Group operating profit / (loss) from continuing operations		1,230	(256)
Embedded derivatives revaluation and amortisation (net)	7	(7)	(2,216)
Finance income-interest	7	2	-
Finance expense-borrowing costs	7	(161)	(149)
Net finance expense		(166)	(2,365)
Profit (Loss) before taxation		1,064	(2,621)
Income tax benefit	8	391	321
Profit / (Loss) after taxation for the year attributable to the equity holders of the parent		1,455	(2,300)
Other comprehensive income/(Loss)			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		414	(285)
Total comprehensive profit/(loss) for the year attributable to the equity holders of the parent		**1,869**	**(2,585)**
		Cents	Cents
Basic earnings/(loss) per share	21	1.12	(1.96)
Diluted earnings/(loss) per share	21	1.09	(1.96)

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

Consolidated Statement of Financial Position

as at 31 December 2021

	Note	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents		3,038	4,180
Trade and other receivables	13	2,439	1,410
Inventories	12	320	318
Right-of-use assets	17	210	128
		6,007	6,036
Non-current assets			
Property, plant and equipment	11	619	73
Trade and other receivables	13	276	404
Intangible assets	9	5,358	3,516
Right-of-use assets	17	296	75
		6,549	4,068
TOTAL ASSETS		**12,556**	**10,104**
Current liabilities			
Trade and other payables	14(a)	2,584	2,760
Current tax liabilities		110	61
Deferred revenue	15	2,047	1,641
Employee entitlements		477	357
Lease liabilities	17	239	145
Convertible notes	14(b)	-	233
Borrowings	14(b)	-	572
		5,457	5,769
Non-current liabilities			
Deferred tax liability	8(b)	-	14
Deferred revenue	15	168	103
Employee entitlements		14	10
Lease liabilities	17	405	112
		587	239
TOTAL LIABILITIES		**6,044**	**6,008**
NET ASSETS		**6,512**	**4,096**
Capital and reserves			
Share capital	18	745	739
Share premium account	19	15,686	15,212
Merger reserve	19	3,497	3,497
Share based payment reserve		676	609
Foreign currency translation reserve	19	(2,569)	(2,983)
Retained earnings		(11,523)	(12,978)
TOTAL EQUITY		**6,512**	**4,096**

The financial statements of Etherstack plc (company registration 07951056) were approved by the Board of Directors and authorised for issue on 15 March 2021. 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 2021

	Note	2021 $'000	2020 $'000
Current assets			
Cash and cash equivalents		1	4
Trade and other receivables	13	54	20
		55	24
Non-current Assets			
Investments in subsidiaries	10	-	-
Trade and other receivables	13	12,308	12,244
		12,308	12,244
TOTAL ASSETS		**12,363**	**12,268**
Current Liabilities			
Trade and other payables	14(a)	267	195
Convertible notes	14(b)	-	233
Borrowings	14(b)	-	617
		267	1,045
TOTAL LIABILITIES		**267**	**1,045**
NET ASSETS		**12,096**	**11,223**
Capital and reserves			
Share capital	18	745	739
Share premium account	19	15,686	15,212
Merger reserve	19	6,742	6,742
Foreign currency reserve	19	100	100
Share-based payment reserve		676	609
Retained earnings		(11,853)	(12,179)
TOTAL EQUITY		**12,096**	**11,223**

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 profit for the financial year was $326,000 (2020 loss $1,191,000).

The financial statements of Etherstack plc (company registration number 07951056) were approved by the Board of Directors and authorised for issue on 15 March 2021.

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 2021

	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 2020	**652**	**7,998**	**3,497**	**609**	**(2,698)**	**(10,678)**	**(620)**
Loss for the year	-	-	-	-	-	(2,300)	(2,300)
Other comprehensive loss	-	-	-	-	(285)	-	(285)
Total comprehensive loss for the year	**-**	**-**	**-**	**-**	**(285)**	**(2,300)**	**(2,585)**
Issue of Share Capital	87	7,214	-	-	-	-	7,301
Transactions with owners	**87**	**7,214**	**-**	**-**	**-**	**-**	**7,301**
Balance at 31 December 2020	**739**	**15,212**	**3,497**	**609**	**(2,983)**	**(12,978)**	**4,096**
Profit for the year	-	-	-	-	-	1,455	1,455
Other comprehensive income	-	-	-	-	414	-	414
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**414**	**1,455**	**1,869**
Issue of Share Capital	6	474	-	-	-	-	480
Share based payments	-	-	-	67	-	-	67
Transactions with owners	**6**	**474**	**-**	**67**	**-**	**-**	**547**
At 31 December 2021	**745**	**15,686**	**3,497**	**676**	**(2,569)**	**(11,523)**	**6,512**

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

Company Statement of Changes in Equity

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

	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 2020	**652**	**7,998**	**6,742**	**609**	**100**	**(10,988)**	**5,113**
Loss for the year	-	-	-	-	-	**(1,191)**	**(1,191)**
Total comprehensive loss	**-**	**-**	**-**	**-**	**-**	**(1,191)**	**(1,191)**
Issue of Share Capital	87	7,214	-	-	-	-	7,301
Transactions with owners	87	7,214	-	-	-	-	7,301
Balance at 31 December 2020	**739**	**15,212**	**6,742**	**609**	**100**	**(12,179)**	**11,223**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**326**	**326**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**326**	**326**
Issue of Share Capital	6	474	-	-	-	-	480
Share based payments	-	-	-	67			67
Transactions with owners	**6**	**474**	**-**	**67**	**-**	**-**	**547**
Balance at 31 December 2021	**745**	**15,686**	**6,742**	**676**	**100**	**(11,853)**	**12,096**

Consolidated Statement of Cash Flows

For the year ended 31 December 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Receipts from customers		8,242	5,528
Payments to suppliers and employees		(5,155)	(4,145)
Interest paid		(120)	(31)
Government grants and tax incentives		461	411
Income tax paid		(60)	(30)
Net cash generated from operating activities		**3,368**	**1,733**
Cash flow from Investing activities			
Additions to intangible assets	9	(2,902)	(1,401)
Payments for property, plant and equipment	11	(632)	(69)
Net cash flow (used in) investing activities		**(3,534)**	**(1,470)**
Cash flows Financing activities			
Proceeds from issue of shares capital		-	3,827
Share issue cost		(4)	(238)
Principal element of lease payments		(167)	(132)
Repayments of loan		(207)	(504)
Interest paid		(427)	(52)
Net cash flow (used in)/generated from financing activities		**(805)**	**2,901**
Net increase/ (decrease) in cash and cash equivalents		**(971)**	**3,164**
Effect of foreign exchange rate changes		(171)	85
Cash and cash equivalents at 1 January		**4,180**	**931**
Cash and cash equivalents at 31 December		**3,038**	**4,180**

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

Company Statement of Cash Flows

For the year ended 31 December 2021

	2021 $'000	2020 $'000
Cash flows from operating activities		
Intercompany receipts / (payments)	1,008	(2,727)
Payments to suppliers and employees	(351)	(338)
Net cash generated from/ (used in) operating activities	**657**	**(3,065)**
Cash flows Financing activities		
Proceeds from issue of shares capital	-	3,827
Share issue cost	(4)	(238)
Proceeds from convertible notes issue	-	-
Re-payments of loan	(228)	(469)
Interest paid	(427)	(52)
Net cash flow (used in)/generated from financing activities	**(659)**	**3,068**
Net increase/ (decrease) in cash and cash equivalents	**(2)**	**3**
Effect of foreign exchange rate changes	(1)	1
Cash and cash equivalents at 1 January	**4**	**-**
Cash and cash equivalents at 31 December	**1**	**4**

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

Section I: Basis of Accounting

Note 1: Basis of Accounting

Section II: Revenue and Expenses

Note 2: Revenue and Other income
Note 3: Segment information
Note 4: Group operating profit/(loss)
Note 5-7: Expenses
Note 8: Taxation

Section III: Assets

Note 9: Intangible Assets
Note 10: Subsidiary undertakings
Note 11: Property Plant and Equipment
Note 12: Inventories
Note 13: Trade and other receivables

Section IV: Liabilities

Note 14: Financial Liabilities
Note 15: Deferred Revenue
Note 16: Financial Instruments
Note 17: Leases

Section V: Share Capital

Note 18: Called up Share Capital
Note 19: Reserves
Note 20: Share based payments
Note 21: Earnings/(Loss) per Share

Section VI: Other Notes

Note 22: Related party transactions
Note 23: Reconciliation of borrowings arising from financing activities
Note 24: Changes in accounting policy and disclosures

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 2021 were authorised for issue by the Board of Directors on 15 March 2022 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 accounting standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2021.

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

For the year ending 31 December 2021, and through to the date of this report, the Group maintains a strong cash position. Based on current and forecasted performance, including consideration of the impacts of Covid 19, the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

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
- Timing and measurement of revenue recognition

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

1.7 Other Accounting Policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements. 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:	2021 $'000	2020 $'000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	6,227	2,368
Support contracts	1,777	1,588
Royalties	500	743
	8,504	**4,699**
Other income		
Grant receipts – research and development incentives	121	56
Cash flow boost- COVID-19 incentive	-	69
	121	**125**

Timing of revenue recognition	2021 $'000 At a point in time	2021 $'000 Over time	2021 $'000 Total	2020$'000 At a point in time	2020$'000 Over time	2020$'000 Total
Revenue from Contracts with Customers						
Licence fees, design, development and supply of wireless communications technology	6,227	-	**6,227**	2,368	-	**2,368**
Support services	-	1,777	**1,777**	-	1,588	**1,588**
Royalties	500	-	**500**	743	-	**743**
	6,727	**1,777**	**8,504**	**3,111**	**1,588**	**4,699**
Other income						
Grant receipts – research and development Incentives	-	121	**121**	-	56	**56**
Cash flow boost- COVID-19 incentive	-	-	**-**	69	-	**69**
	6,727	**1,898**	**8,625**	**3,180**	**1,644**	**4,824**

Revenue recognition accounting policies

The Group recognises 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.

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

Revenue from the sale of goods, including manufactured equipment sales and white labelled equipment sales, 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.

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	**2021 $'000**	**2020 $'000**
Country/region of domicile		
North America	3,010	1,894
Australia and New Zealand	3,610	1,959
Japan, UK and other countries	1,884	846
	8,504	**4,699**

Non-current assets by region		
Country/region of domicile		
United Kingdom	5,666	3,473
North America	99	21
Australia, New Zealand and other countries	784	574
	6,549	**4,068**

Revenues from a single customer amounting to more than 10% of Group revenue	**2021 $'000**	**2020 $'000**
Customer A	1,263	960
Customer B	1,200	688
Customer C	996	557
Customer D	944	-
	4,403	**2,205**

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):

	2021 $'000	2020 $'000
Depreciation of property, plant and machinery	66	33
Depreciation of Right-of-use-assets	257	120
Operating lease costs	183	169
Foreign exchange Losses /(Gains)	543	(127)
Finance costs - interest on loans and convertible notes	60	116
Finance costs – interest on leased assets	100	33
Inventory costs charged to costs of sales	945	719
Amortisation and impairment of intangible assets:		
Amortisation of intangible assets	1,058	1,183
Impairment of intangible assets	-	-
Amortisation and impairment of intangible assets - Total	1,058	1,18

-

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:

	2021 $'000	2020 $'000
Grant Thornton UK LLP		
Fees payable to the company auditors for the audit of the company's annual accounts	154	137
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	34	31
Tax compliance services	6	6
Tax advisory services	-	5
	224	**209**

6. Staff costs and Directors' emoluments

a) Staff costs	2021 $'000	2020 $'000
Wages and salaries	4,859	3,065
Social security costs	143	160
Pension costs	237	33
	5,239	**3,258**

$308 share-based payments included in wages and salaries for the current year (2020: $nil).

The staff costs set out above include $2,180 (2020 $1,080) which have been capitalised in accordance with the accounting policies outlined in Note 9.

The average number of employees during the year was:

	2021 Number	2020 Number
Executive Directors	1	1
Engineering	21	17
Management, sales & administrative	11	8
	33	**26**

b) Directors' emoluments	2021 $'000	2020 $'000
Emoluments	420	401
Amounts paid to third parties	-	-
	420	401
Pension costs	9	6

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:	2021 Number	2020 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.

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

	2021 $'000	2020 $'000
Related party loans (see Note 22)	36	64
Convertible Notes	3	62
Interest-Leased assets	100	33
Other interest (net)	20	(10)
Revaluation and amortisation of embedded derivative (net)	7	2,216
	166	**2,365**

8. Taxation

(a) Tax (credited)/charged in the statement of comprehensive income.	**2021 $'000**	**2020 $'000**
Current income tax:		
UK corporation tax and income tax	(451)	(310)
Foreign tax	106	41
Current income tax benefit	(345)	(269)
Amounts (over) provided in previous years	(46)	(52)
Tax (income) in the statement of comprehensive income	**(391)**	**(321)**

	2021 $'000	2020 $'000
The tax (income) in the statement of comprehensive income is disclosed as follows:		
Income tax (income) on continuing operations	(391)	(321)

Reconciliation of the total tax (credit)

The tax benefit in the statement of comprehensive income varies from the prima facie tax charge based on the standard rate of corporation tax in the UK of 19% (2020 19%). The differences are reconciled below:

	2020 $'000	2019 $'000
Profit / (Loss) before income tax	1,064	(2,621)
Tax at the UK corporation tax rate of 19% (2020: 19%)	202	(498)
Expenses not deductible for tax purposes	19	20
Tax losses not recognised	52	(242)
Effect of enhanced R&D tax relief	(657)	451
Difference in overseas tax rates	53	25
Deferred tax liability	(14)	(26)
Amounts (over) provided in previous years	(46)	(51)
Total tax (benefit) in the statement of comprehensive income	(391)	(321)

(b) Deferred tax liabilities/	1 January 2021 $'000	Recognised in Profit & Loss $'000	31 December 2021 $'000
Deferred tax liability re customer contract intangible	14	(14)	-
	14	(14)	-

Accounting policies

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

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

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

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

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

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

The Group is subject to income and other tax in the UK, USA, Australia, Japan and other countries. 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 $9,659 (2020 $11,404) 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 2021 and 2020 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. The tax effect of losses surrendered in 2021 were $657 and in 2020 were $451.

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 2020	20,819	431	802	353	22,405
Additions	1,401	-	-	-	1,401
Disposals	-	-	-	-	-
Exchange differences	1	-	79	-	80
At 31 December 2020	22,221	431	881	353	23,886
Additions	2,678	224	-	-	2,902
Exchange differences	(1)	1	(51)	-	(51)
At 31 December 2021	24,898	656	830	353	26,737
Accumulated amortisation					
At 1 January 2020	17,704	395	658	353	19,110
Charge for the year	1,073	17	93	-	1,183
Impairment	-	-	-	-	-
Exchange differences	-	-	77	-	77
At 31 December 2020	18,777	412	828	353	20,370
Charge for the year	962	45	51	-	1,058
Impairment	-	-	-	-	-
Exchange differences	-	-	(49)	-	(49)
At 31 December 2021	19,739	457	830	353	21,379
Carrying amount					
At 31 December 2021	**5,159**	**199**	**-**	**-**	**5,358**
At 31 December 2020	**3,444**	**19**	**53**	**-**	**3,516**

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.

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 extend 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 to identify 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.

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. In 2021, all assets have been considered to be part of one cash-generating unit (CGU) (2020 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 $2,678 (2020 $1,401). 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 2021 review is a $Nil (2020 $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 2022. For subsequent years a growth rate of nil is assumed in the financial models from the base year 2022 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%.
- The Group operates as a single CGU

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 $417 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 $155 to $1,553 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 2021 $000	Company 2020 $000
Subsidiary undertakings at cost	7,311	7,311
Less impairment provision	(7,311)	(7,311)
	-	-

The Company's investments at 31 December 2021 in the share capital of other companies comprises:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack Wireless 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 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

There is no impairment adjustment in 2021 or 2020.

11. Property, plant and equipment (Group)

	Leasehold property improvements $'000	Furniture and equipment $'000	Computer equipment $'000	Work in progress-Leasehold property improvements $'000	Total $'000
Cost					
At 1 January 2020	26	129	342	-	497
Additions	-	32	36	-	68
Disposals	-	-	-	-	-
Exchange differences	3	9	19	-	31
At 31 December 2020	29	170	397	-	596
Additions	-	113	156	363	632
Exchange differences	(2)	(9)	(12)	(12)	(35)
At 31 December 2021	27	274	541	351	1,193
Accumulated depreciation					
At 1 January 2020	26	124	312	-	462
Charge for the year	-	5	28	-	33
Disposals	-	-	-	-	-
Exchange differences	3	8	17	-	28
At 31 December 2020	29	137	357	-	523
Charge for the year	-	27	39	-	66
Exchange differences	(2)	(6)	(7)	-	(15)
At 31 December 2021	27	158	389	-	574
Carrying amount					
At 31 December 2021	**-**	**116**	**152**	**351**	**619**
At 31 December 2020	**-**	**33**	**40**	**-**	**73**

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

	2021 $'000	2020 $'000
Work in Progress	582	580
Slow moving stock provision	(262)	(262)
	320	**318**

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	
	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Current				
Trade debtors	1,030	581	10	5
Accrued Income from contracts in progress	373	173	-	-
Other debtors	593	328	44	15
Research and development incentives	443	328	-	-
	2,439	**1,410**	**54**	**20**
Non-current				
Accrued Income from contracts in progress	276	404	-	-
Amounts receivable from Group undertakings	-	-	13,243	13,179
Less: Impairment	-	-	(935)	(935)
	276	**404**	**12,308**	**12,244**

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

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 19 days (2020: 27). 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 (2020: 3) customers who each represent more than 5 per cent of the total balance of trade receivables.

SECTION IV: LIABILITIES

14. Financial Liabilities

(a) Trade and other payables	Group 2021 $'000	Group 2020 $'000	Company 2021 $'000	Company 2020 $'000
Current				
Trade payables and accruals	866	845	67	38
Other payables	1,188	1,549	200	157
Other taxes and social security costs	530	366	-	-
	2,584	**2,760**	**267**	**195**
Non-current				
Trade payables and accruals	-	-	-	-
Trade and other payables -Total	**2,584**	**2,760**	**267**	**195**

(b) Borrowings	Group 2021 $'000	Group 2020 $'000	Company 2021 $'000	Company 2020 $'000
Current				
Convertible notes at amortised cost	-	107	-	107
Embedded derivative at fair value	-	126	-	126
Other loans	-	572	-	617
	-	**805**	**-**	**850**

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 in the prior year relates to conversion rights attached to convertible notes.

Convertible notes

As at 1 January 2020, there were 6,666,667 Convertible notes on issue. The key terms of these Convertible Notes were:

- 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

On 17 February 2020 the Company issued 499,377 additional Convertible notes. The key terms were:

- The Notes are Convertible at the note holders' option at any time prior 22 August 2021.
- 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 499,377 fully paid ordinary shares may be issued.
- The Convertible Notes are unlisted

On 30 June 2020 and 1 July 2020 6,666,667 Convertible notes were converted into fully paid Ordinary shares such that as at 31 December 2020 499,377 Convertible Notes were on issue.

These remaining Convertible Notes were converted into fully paid ordinary shares on 1 April 2021 and therefore there are no Convertible Notes on issue at 31 December 2021.

Other loans

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

15. Deferred Revenue

	Group	
	2021	**2020**
	$'000	**$'000**
At 1 January	1,744	1,332
Deferred during the year	4,679	2,584
Released to the income statement during the year	(4,208)	(2,172)
At 31 December	**2,215**	**1,744**
Current	**2,047**	**1,641**
Non-current	**168**	**103**

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.

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 are no financial liabilities measured at fair value at 31 December 2021 (2020: one). The prior year financial liability represented the fair value of the embedded derivative contained in the Convertible Notes. This financial liability was $126 and the valuation is categorised as Level 3 – Valuation technique.

Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2021	**2020**	**2021**	**2020**
	$'000	**$'000**	**$'000**	**$'000**
Loans and receivables measured at amortised cost				
Cash and cash equivalents	3,038	4,180	1	4
Trade and other receivables	2,272	1,486	12,362	12,244
	5,310	**5,666**	**12,363**	**12,248**
Financial liabilities at amortised cost				
Convertible note at amortised cost	-	107	-	107
Current borrowings at amortised cost	-	572	-	617
Trade and other payables	2,054	2,394	267	195
	2,054	**3,073**	**267**	**919**
Financial liabilities at Fair value through profit and loss (FVTPL)				
Embedded derivative at FVTPL	-	126	-	126

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 2021	**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	-	866	-	-	-	866
Related party loans	-	-	-	-	-	-
Other payables	-	1,188	-	-	-	1,188
Convertible notes	-	-	-	-	-	-
	-	**2,054**	**-**	**-**	**-**	**2,054**

Group: Year ended 31 December 2020	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	-	845	-	-	-	845
Related party loans	-	-	572	-	-	572
Other payables	-	1,549	-	-	-	1,549
Convertible notes	-	-	233	-	-	233
	-	**2,394**	**805**	**-**	**-**	**3,199**

Company: Year ended 31 December 2021	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	-	67	-	-	-	67
Related party loans	-	-	-	-	-	-
Other payables	-	200	-	-	-	200
Convertible Notes	-	-	-	-	-	-
	-	**267**	**-**	**-**	**-**	**267**

Company: Year ended 31 December 2020	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	-	38	-	-	-	38
Related party loans	-	-	617	-	-	617
Other payables	-	157	-	-	-	157
Convertible Notes	-	-	233	-	-	233
	-	**195**	**850**	**-**	**-**	**1,045**

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 2021 (2020 $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:

		2021 $'000	2020 $'000
Trade and other receivables	- Current (Note 13)	2,439	1,410
	- Non-Current (Note 13)	276	404
Cash and cash equivalents		3,038	4,180
		5,753	5,994

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and at year end the trade receivables are assessed on an individual basis for any expected credit losses. The expected credit loss for trade and other receivables is $nil (2020 $nil).

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 $13,243 (2020 $13,179). 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 2021 (2020 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.

	Change in GBP rate	Group Effect on (loss)/profit before tax $'000	Group Effect on equity $'000	Company Effect on (loss)/profit before tax $'000	Company Effect on equity $'000
2021	+10%	(573)	2	666	666
	-10%	573	(2)	(666)	(666)
2020	+10%	(575)	(169)	598	598
	-10%	575	169	(598)	(598)

	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
2021	+10%	509	(10)	571	571
	-10%	(509)	10	(571)	(571)
2020	+10%	517	252	562	562
	-10%	(517)	(252)	(562)	(562)

17. Leases

Right-of-use assets

Right-of-use assets are presented in the statement of financial position as follows:

	Group 2021 $'000	Group 2020 $'000
Current	210	128
Non-current	296	75
Total	**506**	**203**

Lease liabilities

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

	Group 2021 $'000	Group 2020 $'000
Current	239	145
Non-current	405	112
Total	**644**	**257**

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	3	1-3 years	1.5 years	3	0	2	0

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2021 were as follows:

	Within 1 year	**1-2 years**	**After 2 years**
31 December 2021			
Lease payments	312	208	267
Interest charges	(73)	(47)	(23)
Net present values	**239**	**161**	**244**

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

	Carrying amount	**Depreciation expense**	**Impairment**
31 December 2021			
Office buildings	506	257	-

SECTION V: SHARE CAPITAL

18. Called up share capital

	Company	
	2021 $'000	2020 $'000
Issued, allotted and fully paid		
130,719,502 (2020; 129,580,125) ordinary shares of 0.4p each	745	739

During 2021 there were 3 share issues:

- On 1 April 2021, 499,377 fully paid ordinary shares were issued as a result of the conversion of convertible notes.
- On 19 July 2021, 100,000 fully paid ordinary shares were issued as a result of the exercise of options.
- On 23 August 2021, 540,000 fully paid ordinary shares were issued under the terms of the Etherstack employee incentive scheme

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 are as follows:

	2021		2020	
	Number of share options	Weighted average exercise price (AUD)	Number of share options	Weighted average exercise price (AUD)
Outstanding at beginning of year	2,100,000	0.10	2,900,000	0.10
Granted during the year	-		-	
Forfeited during the year	-		-	
Exercised during the year	(100,000)		(800,000)	
Outstanding at end of year	2,000,000	0.10	2,100,000	0.10
Exercisable at end of year	2,000,000		2,100,000	

During the year, 100,000 (2020: 800,000) options were exercised.

There were 3,000,000 options issued on 10 August 2016 with an exercise price of AUD$0.10 and expiring on 10 August 2026.

The options outstanding at 31 December 2021 had a weighted average exercise price of AUD 0.10 (2020 AUD 0.10), and a weighted average remaining contractual life of 4.6 years (2020: 5.6 years).

Set out below are summaries of performance rights granted under the Etherstack Long term Incentive plan

Grant Date	Expiry Date	Balance at start of year	Granted	Vested	Expired/ forfeited/ other	Balance at end of year
11 February 2021	31 January 2023	0	30,000	(30,000)	0	0
11 February 2021	31 January 2023	0	30,000	0	0	30,000
16 June 2021 Tranche 1	31 December 2026	0	1,050,000	0	0	1,050,000
16 June 2021 Tranche 2	31 December 2026	0	1,050,000	0	0	1,050,000
7 July 2021	30 November 2024	0	82,500	0	(15,000)	67,500
6 August 2021	6 August 2026	0	510,000	(510,000)	0	0
21 November 2021	21 November 2026	0	15,000	0	0	15,000
		0	2,767,500	540,000	15,000	2,212,500

Set out below are the performance rights exercisable at the end of the financial year

Grant Date	Expiry Date	31 December 2021	31 December 2020
11 February 2021	31 January 2023	30,000	0
6 August 2021	6 August 2026	510,000	0

For the performance rights granted during the current financial year, the valuation inputs used to determine the fair value at the grant date are as follows:

<table>
<tr><th>Grant Date</th><th>Expiry Date</th><th>Fair value at grant date</th><th>Other inputs where applicable</th></tr>
<tr><td>16 June 2021</td><td>31 December 2026</td><td>AUD 0.39</td><td rowspan="2">These performance rights vest upon a market-based performance condition. Inputs are the market price and volatility of Etherstack plc CDIs as traded on the Australian Securities exchange (ASX) and assumptions of (i) nil dividends and (ii) 0.7% per annum as the risk free interest rate.</td></tr>
<tr><td>16 June 2021</td><td>31 December 2026</td><td>AUD 0.32</td></tr>
<tr><td colspan="4">Vesting of all other performance rights issued in the year are based upon non market based conditions. Vesting of these rights are based upon service conditions, such as retention periods and project related goal achievement and therefore the fair value of these performance rights is based upon the ASX market price at the date of grant.</td></tr>
</table>

The performance rights listed above will vest once the holder of the right has satisfied various performance conditions set out in the offer letter. The performance conditions may include one or more of:

(i) service to the Company of a minimum period of time;

(ii) achievement of specific performance conditions by the participant and/or by the Company;

(iii) a vesting period following satisfaction of performance conditions before the Performance Rights vest; or

(iv) such other performance conditions as the Board may determine and set out in the Offer.

The Board in its absolute discretion determines whether performance conditions have been met.

The Group recognized total expenses of $308 (2020 $nil) relating to equity-settled share-based payment transactions.

Share-based payments accounting policy

Equity-settled share-based compensation benefits are provided to employees. Equity-settled transactions are awards of shares, performance rights or options over shares that are provided to employees in exchange for the rendering of services.

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.

Where performance rights vest upon market based conditions, fair value is determined using either a Monte Carlo simulation or a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Where performance rights vest upon non market based conditions such as such as retention periods and project related goal achievement, the fair value is based upon the market price of Etherstack plc shares at the date of the grant.

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.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification. If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

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:

	2021		2020	
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	**1,455**	**1,455**	**(2,300)**	**(2,300)**
Net profit/ (loss) attributable to equity holders of the parent adjusted for the effect of dilution	**1,455**	**1,455**	**(2,300)**	**(2,300)**
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	130,189	130,189	117,253	117,253
Options*	-	2,981	-	2,181
Weighted average number of ordinary shares adjusted for the effect of dilution	**130,189**	**133,170**	**117,253**	**119,434**
Earnings/ (Loss) per share (cents)	**1.12**	**1.09**	**(1.96)**	**(1.96)**

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

There are no ordinary share transactions or potential ordinary share transactions occurring after the year end 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 year.

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*.

	2021 $'000	2020 $'000
Short-term employee benefits	601	581
Post-employment benefits (defined contribution schemes)	27	23
Deferred Equity Compensation	55	-
	683	**604**

Loans to/ from related parties

The Company has provided its subsidiaries with loans at 5% (2020 5%) interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of $13,243 (2020 $13,179) 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 $629 (2020 $436) 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 $15 (2020 $28) was made by the company.
- Interest accrued in the year is nil.

At 31 December 2021, $156 remains owing to David Deacon. The loan amount due being $156 (31 December 2020 $174) 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 $Nil (2020 $Nil) were advanced and $228 repayments were made.
- Interest of $43 (2020 $62) was accrued for the year.

At 31 December 2021, $257 (2020 $876) is owing to Peter Stephens. The amount due being $257 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

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

- Loans of $Nil (2020 $Nil) were advanced and $89 repayments were made.
- Interest of $Nil (2020 $2) was accrued for the year.

At 31 December 2021, $184 (2020 $275) is owing to Paul Barnes. The amount due being $184 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Other related parties

QFDJG LLP, an incorporated Limited liability partnership registered in the UK of which Paul Barnes is a director and shareholder has provided certain payroll support services to the Group in the year. The services totalled $7 (2020 $3) and were provided under arm's length terms and conditions. At 31 December 2021 $Nil (2020 $nil) was due to LexGP LLP.

23. Reconciliation of borrowings arising from financing activities

Group	Current $'000	Non-current $'000	Total $'000
At 1 January 2021	**805**	**-**	**805**
Cash-flows:			
Repayments of loan	(634)	-	(634)
Non-cash:	-	-	-
Interest on borrowings	38	-	38
Amortisation of convertible notes	1	-	1
Revaluation of Embedded derivative	7	-	7
Convertible notes converted into equity	(243)	-	(243)
Reclassification	23	-	23
Exchange difference	3	-	3
At 31 December 2021	**0**	**-**	**805**

Group	Current $'000	Non-current $'000	Total $'000
At 1 January 2020	**1,262**	**1,417**	**2,679**
Cash-flows:			
Repayments of loan	(556)	-	(556)
Non-cash:			
Interest on borrowings	56	-	56
Amortisation of convertible notes	2	76	78
Revaluation of Embedded derivative	115	2,120	2,235
Convertible notes converted into equity	(103)	(3,593)	(3,696)
Reclassification	-	-	-
Exchange difference	29	(20)	9
At 31 December 2020	**805**	**-**	**805**

Company	Current $'000	Non-current $'000	Total $'000
At 1 January 2021	**850**	**-**	**850**
Cash-flows:			
Repayments of loan	(653)	-	(653)
Non-cash:			
Interest on borrowings	38	-	38
Amortisation of convertible notes	1	-	1
Revaluation of Embedded derivative	7	-	7
Convertible notes converted into equity	(243)	-	(243)
Reclassification	(2)	-	(2)
Exchange difference	2	-	2
At 31 December 2021	**-**	**-**	**-**

Company	Current $'000	Non-current $'000	Total $'000
At 1 January 2020	**1,269**	**1,417**	**2,686**
Cash-flows:			
Repayments of loan	(522)	-	(522)
Non-cash:			
Interest on borrowings	56	-	56
Amortisation of convertible notes	2	76	78
Revaluation of Embedded derivative	115	2,120	2,235
Convertible notes converted into equity	(103)	(3,593)	(3,696))
Reclassification	-	-	-
Exchange difference	33	(20)	13
At 31 December 2020	**850**	**-**	**850**

24. Changes in accounting policy and disclosures

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.

ASX Additional Information

Shareholdings

The issued capital of the Company as at 18 February 2022 is 130,719,502 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	645	323,432	0.2%
1,001 – 5,000	803	1,677,200	1.3%
5,001 – 10,000	167	1,341,025	1.0%
10,001 – 100,000	220	6,342,501	4.9%
100,001 and over	75	121,035,344	92.6%
Total	**1,910**	**130,719,502**	100

As at 18 February 2022 there were 770 shareholders holding less than a marketable parcel of AUD $500.

Substantial shareholders as at 18 February 2022

As at 20 March 2021 there were 3 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	36.9
MR PETER STEPHENS	17,677,651	13.5
MR PAUL BARNES	6,850,000	5.2
	72,769,501	55.7

Top 20 shareholders as at 18 February 2022

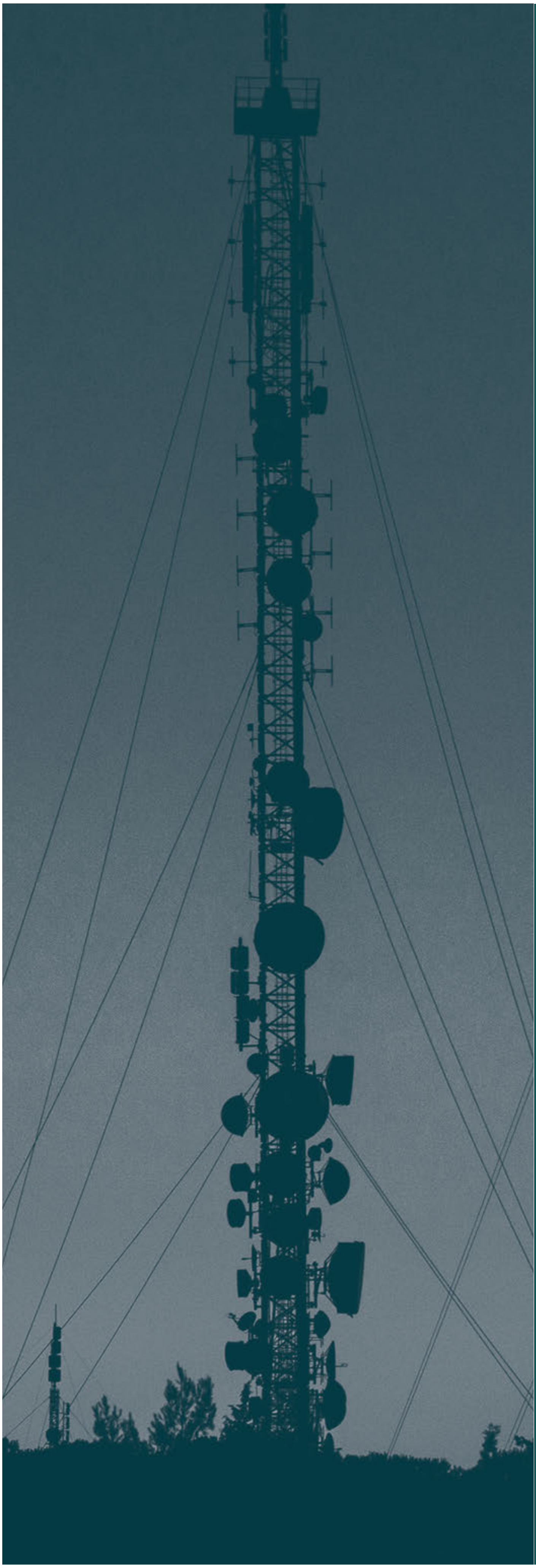
		No of shares	% of issued capital
1	MR DAVID ANDREW DEACON	48,241,850	36.9%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	23,277,814	17.8%
3	MR PAUL BARNES	6,850,000	5.2%
4	MR BILL EASON	4,065,506	3.1%
5	VERONICA STEPHENS	3,500,000	2.7%
6	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	3,012,564	2.3%
7	LACHMAC PTY LTD	2,750,000	2.1%
8	MR ANDREW SCOTT	2,056,670	1.6%
9	GIGA PALACE LIMITED	1,909,994	1.5%
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,582,093	1.2%
11	NATIONAL NOMINEES LIMITED	1,561,199	1.2%
12	CITICORP NOMINEES PTY LIMITED	1,294,140	1.0%
13	MR PETER STEPHENS	1,290,323	1.0%
14	ADROIT BY NATURE PTY LTD <JORDELLA FAMILY A/C>	1,250,392	1.0%
15	MS CARRIE LARISSA HORNBECK	935,000	0.7%
16	MR JEREMY JON DAVIES	909,000	0.7%
17	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	733,153	0.6%
18	RIDGEPORT HOLDINGS PTY LTD	627,000	0.5%
19	MR PAUL RICHARDS	603,750	0.5%
20	MR DOUGLAS CHAPMAN	597,625	0.5%
	TOTAL	**107,048,073**	**82.1%**

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.



etherstack
wireless innovation

Etherstack plc
93A Shepherd Street
Chippendale, NSW 2008

Phone: +61 2 8399 7500

ASX :ESK

www.etherstack.com