Etherstack plc
and controlled entities

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2014

ARBN 156 640 532	**Previous Corresponding Period: Half Year ended on 30 June 2013**

Results for Announcement to the market				**USD$'000**
Revenue from ordinary activities	Increased	89%	to	3,373
(Loss) profit from ordinary activities after tax attributable to members	Decreased	51.2%	to	(1,539)
Net (loss) attributable to members	Decreased	51.2%	to	(1,539)

Dividends

There were no dividends declared or paid during the period (30 June 2013: $nil) and the Directors do not recommend any dividend be paid.

Explanation

Revenues for the half year are $3.373 million and have increased significantly (+89%) over the comparable 2013 half year period for which revenue was $1.785 million The increase in revenue for the half year was driven by higher levels of project activity on the Group's Australian utility project and the Group's first ever orders from the Commonwealth of Australia for tactical communications equipment. As noted previously, the nature of Etherstack business means that revenues for a period can be impacted by the timing of a small number of large transactions.

In addition to the positive revenue changes outlined above, the loss from ordinary activities after tax has decreased as a result of:

- Cost saving actions totalling $2 million, in particular actions connected to the number of staff employed with the Group. Since 1 July 2013, the group has reduced its headcount by 22, primarily in the Group's European operations. This has been achieved through a combination of limited retrenchments and non-replacement of staff. Savings arising in the period were reduced where retrenchment costs were incurred.
- As a consequence of the reduced engineering staff, the amount of costs capitalised as development costs were $1.290 m, as compared with $1.795 m in the first half of 2013.
- Non cash costs arising from the amortisation of the capitalised development costs have increased from $0.6 m to $1.1 m as more projects reach the completion stage.

The interim financial report for the half year ended 30 June 2014 dated 27 August 2014, forms part of and should be read in conjunction with this Half Year Report (Appendix 4D). The unaudited condensed consolidated financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Revenue and profit guidance

Etherstack derives revenues from different sources. Some of the projects Etherstack undertakes are individually significant to revenue for the year or half year. The timing of the completion or commencement of these individually significant projects can cause a significant variation in the revenue pattern. Similarly, a change in the timing of the commencement of these projects can also cause a significant variation in both reported revenues and 12 month revenue forecasts.

The current revenue base and revenue mix means Etherstack may experience significant fluctuations in revenues recognised for any year or half year as a consequence of activity on a small number of individually significant projects. Accordingly, the company does not have sufficient certainty over the timing of revenue recognition to provide market guidance.

David Deacon, Director
27 August 2014

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2014

CONTENTS

DIRECTORS' REPORT

The directors present the condensed consolidated interim financial report of Etherstack plc ("the Company" or "Etherstack") and its controlled entities (together referred to as "the Group") for the half year ended 30 June 2014.

Directors

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

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

Principal activities

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

Review of operations and financial results

Group revenues for the half year are $3.373 million and have increased significantly (89%) over the comparable 2013 half year period for which revenue was $1.785 million. The main reason for the increase in revenue is increased levels of project activity on the Group's Australian utility project. These revenues have been supplemented by new customer successes with Australian Federal Police and an Israeli defence company. Revenue from the US market, which has traditionally been the largest market for Etherstack products, has remained depressed which, while disappointing, is consistent with the results for other industry participants in North America markets and reflects lower levels of government demand for public safety communications products which the Group believes is cyclical. Importantly, the decline in Etherstack North American revenues is not attributable to opportunities lost to rival technology providers or competing technologies.

Early in the half year, Etherstack completed a major development and integration project for a Japanese communications company and the Group expects a healthy royalty revenue stream to commence and grow as our customer takes their finished product to global markets. The first royalty revenues from this customer were recognised in June 2014.

The Group has continued to invest significantly in products which will reduce revenue volatility and reduce the historical dependence on a small number of relatively large contracts which has led to revenue volatility. The Group's tactical repeater product has been ordered by Australian and international police services in the half year and there are high hopes for this new product.

Notwithstanding that revenues have increased compared with the 6 months to 30 June 2013, the revenue outcome for the half year is below the level required to generate a profit. This level of revenue for the half year has created some short term cash pressures within the Group. In response, the Directors have raised cash for working capital in July 2014, and taken actions to reduce the cost base of the Group. Additional actions are planned which will be implemented if revenue levels are not restored to levels which generate sufficient profits and cashflows. These include further cost reduction strategies and other mitigation strategies as discussed in Note 2.1 to the accounts.

In the period since 1 July 2013 management and the Board have reduced the cost base significantly mainly through reducing staff numbers. The annualised saving in direct salary cost is approximately $2.0 million. These savings are partially realised in the period but are reduced by retrenchment and other termination costs. These savings will be fully realised in the second half of the year.

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

- As a consequence of the reduced engineering staff, the amount of costs capitalised as development costs were $1.290 m, as compared with $1.795 m in the first half of 2013.
- Non cash costs arising from the amortisation of the capitalised development have increased from $0.6 m to $1.1 m as more projects reach the completion stage.

Financing activities

Within the period, there was an increase in loans from the majority shareholder to the Group of $99,000.

After the end of the half year the Company completed a Convertible Note issue raising $508,000. This convertible note issue was supported by the existing shareholders.

The Directors note that Etherstack has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

Rounding of Amounts

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

Signed in accordance with a resolution of the directors

David Deacon, Director
27 August 2014

Independent auditor's review report

To the members of Etherstack plc

We have reviewed the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014, which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cashflows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities for the half-year financial report

The half yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half yearly financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting.

As disclosed in note 4, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2014 is not prepared, in all material respects, in accordance with the accounting policies set out in note 2, which comply with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Emphasis of Matter – Going Concern

In forming our review conclusion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 2 to the financial statements concerning the group's ability to continue as a going concern. These conditions, along with the other matters explained in note 2 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Grant Thornton UK LLP, Cambridge

27 August 2014

Consolidated Statement of Comprehensive Income
For the period ended 30 June 2014

	Half year ended 30 June 2014 USD $'000 (unaudited)	Half year ended 30 June 2013 USD $'000 (unaudited)
Revenue	3,373	1,785
Cost of sales	(1,526)	(1,362)
Gross Profit	1,847	423
Administrative expenses	(1,734)	(2,600)
Amortisation	(1,128)	(596)
Other expenses – net foreign exchange (losses) / gains	(249)	62
Group operating loss from continuing operations	(1,264)	(2,711)
Finance costs	(301)	(219)
Loss before taxation	(1,565)	(2,930)
Income tax benefit/(expense)	26	(222)
Loss after taxation for the period attributable to the equity holders of the parent	(1,539)	(3,152)
Other comprehensive (loss)/ income		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	(155)	282
Total comprehensive loss for the period attributable to the equity holders of the parent	(1,694)	(2,870)
(Loss) per share attributable to the equity holders of the parent		
Basic (loss) for the period (in US cents)	(4.81)	(9.86)
Diluted (loss) for the period (in US cents)	(4.81)	(9.86)

The results above relate to continuing operations.

Consolidated Statement of Financial Position
As at 30 June 2014

	Note	30 June 2014 USD $'000 (unaudited)	31 December 2013 USD $'000 (audited)
NON-CURRENT ASSETS			
Intangible assets	6	12,012	11,788
Property, plant and equipment		194	235
Trade and other receivables		200	257
		12,406	12,280
CURRENT ASSETS			
Inventories		246	296
Trade and other receivables		2,532	1,957
Cash and bank balances		39	29
		2,817	2,282
TOTAL ASSETS		15,223	14,562
CURRENT LIABILITIES			
Trade and other payables		3,760	3,038
Convertible notes	7	510	440
Deferred revenue		400	235
Current tax liabilities		130	145
		4,800	3,858
NON-CURRENT LIABILITIES			
Trade and other payables		1,888	1,252
Convertible notes	7	2,784	2,632
Deferred revenue		968	344
Deferred tax liabilities		252	251
		5,892	4,479
TOTAL LIABILITIES		10,692	8,337
NET ASSETS		4,531	6,225
EQUITY			
Share capital		205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		361	361
Foreign currency translation reserve		(1,897)	(1,742)
Retained earnings		83	1,622
TOTAL EQUITY		4,531	6,225

Consolidated Statement of Changes in Equity
For the period ended 30 June 2014

For the half-year ended 30 June 2013	Share Capital $'000	Share Premium Account $'000	Merger Reserve $'000	Share Based Payment Reserve $'000	Foreign Currency Translation Reserve $'000	Retained Earnings $'000	Total Equity $'000
Balance at 1 January 2013	205	2,282	3,497	290	(1,802)	6,203	10,675
Share based payment charge	-	-	-	23	-	-	23
Effect of foreign exchange on equity	(12)	(81)	(3)	(9)	-	105	-
Transactions with owners	(12)	(81)	(3)	14	-	105	23
Loss for the period	-	-	-	-	-	(3,152)	(3,152)
Other comprehensive income for the period	-	-	-	-	282	-	282
Total comprehensive income for the period	-	-	-	-	282	(3,152)	(2,870)
Balance at 30 June 2013 (unaudited)	193	2,201	3,494	304	(1,520)	3,156	7,828
For the half-year ended 30 June 2014							
Balance at 1 January 2014	205	2,282	3,497	361	(1,742)	1,622	6,225
Transactions with owners	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,539)	(1,539)
Other comprehensive income for the period	-	-	-	-	(155)	-	(155)
Total comprehensive income for the period	-	-	-	-	(155)	(1,539)	(1,694)
Balance at 30 June 2014 (unaudited)	205	2,282	3,497	361	(1,897)	83	4,531

Consolidated Statement of Cash Flows
For the period ended 30 June 2014

	Note	Six months 30 June 2014 USD $'000 (unaudited)	Six months 30 June 2013 USD $'000 (unaudited)
Operating (loss)		(1,264)	(2,711)
Adjustments for:			
Depreciation of property, plant and equipment		41	96
Amortisation of intangible assets	6	1,128	599
Amortisation of finance costs		11	21
Revaluation of the embedded derivative		(59)	-
Provision for dilapidation		30	
Net foreign exchange (gains) / losses		249	(62)
Equity settled share based transactions		-	23
Operating cash flows before movements in working capital		**136**	**(2,034)**
Decrease in inventories		50	39
(Increase)/decrease in receivables		(451)	1,247
Increase in payables		1,000	833
Increase in deferred revenue		748	-
Cash generated (used in)/from operations		**1,483**	**85**
Income taxes paid		(15)	-
Interest paid		(170)	(104)
Net cash flow from/(used in) operating Activities		**1,298**	**(19)**
Investing activities			
Purchases of intangible assets		-	(68)
Capitalised development costs	6	(1,290)	(1,727)
Purchases of property, plant and equipment		-	(21)
Net cash flow used in investing activities		**(1,290)**	**(1,816)**
Financing activities			
Increase in loans Related parties	11	60	413
Net Proceeds on issue of convertible notes	7	-	1,256
Net cash from financing activities		**60**	**1,669**
Net (decrease) in cash and cash equivalents		**68**	**(166)**
Cash and cash equivalents at beginning of period		29	272
Effect of foreign exchange rate changes		(58)	32
Cash and cash equivalents at end of period		39	138

Notes forming part of the Condensed Consolidated Financial Statements

1. General information

Etherstack plc is a public company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is 28 Poland Street, London, W1P 8QN.

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2014 comprises the Company and its subsidiaries (together referred to as 'the Group'). The principal activities of the Group throughout the period were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company. These financial statements are presented in US$ because the Group operates in international markets and the US$ provides the most comparable currency for peer companies.

2. Basis of preparation

The condensed consolidated financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013.

This condensed consolidated interim financial report does not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards, (IFRS) as adopted by the European Union and should be read in conjunction with the consolidated financial statements at 31 December 2013.The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 27 August 2014.

2.1. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. For the six months to 30 June 2014, the Group incurred a loss after tax of $1,539,000 (30 June 2013: loss of $3,152,000).

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of certain revenue targets set out in the business plan. Revenue increased significantly in the first half of 2014 compared to the first half of 2013 and the Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event that revenue targets were not met then this would place a short term strain on cash reserves, although the Directors have identified further mitigating actions that could be implemented to preserve cash if required. Additionally, and as evidenced in note 10, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and the directors have therefore concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

Notes forming part of the Condensed Consolidated Financial Statements

2.2. Financial reporting period

The interim financial information for the period from 1 January 2014 to 30 June 2014 is unaudited. In the opinion of the Directors, the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The accounts incorporate comparative figures for the interim period 1 January 2013 to 30 June 2013 and the audited financial year to 31 December 2013. The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006.

The comparatives for the full year ended 31 December 2013 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, but included a reference to going concern issues, which the auditors drew attention to by way of emphasis, without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

3. Judgments and estimates

The preparation of these condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2013.

4. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

The accounting policies have been applied consistently throughout the Group for the purpose of these interim financial statements.

5. Operating segments

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 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 and complexity of the software, there is a large degree of collaboration and integration across the countries for any given project.

Notes forming part of the Condensed Consolidated Financial Statements

6. Intangible assets

Intangible assets comprise costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible Assets. The amortisation period for development costs incurred on the Group's software development is 6 years or over the estimated delivery model, whichever is shorter. Amortisation does not take place until the asset is fully completed such that it can be deployed to customers and available for deployment.

Engineering software is amortised over it is expected useful life of 5 years.

The intangible asset represented by acquired customer contracts is amortised based on the pattern of expected economic benefits derived from the acquired customer contracts.

	Capitalisation of development costs USD $'000	Engineering software USD $'000	Customer contract intangible USD $'000	Goodwill USD $'000	Total USD $'000
Cost					
At 1 January 2013	9,026	536	1,144	353	11,059
Additions	1,727	68	-	-	1,795
Exchange differences	-	(5)	(158)	4	(159)
At 30 June 2013	10,753	599	986	357	12,695
At 1 January 2014	12,440	697	979	353	14,469
Additions	1,290	-	-	-	1,290
Exchange differences	-	-	62	-	62
At 30 June 2014	13,730	697	1,041	353	15,821
Accumulated amortisation					
At 1 January 2013	875	337	89	-	1,301
Charge for the period	568	31	-	-	599
Exchange differences	-	(4)	-	-	(4)
At 30 June 2013	1,443	364	89	-	1,896
At 1 January 2014	2,163	388	130	-	2,681
Charge for the period	1,031	26	71	-	1,128
Exchange differences	-	-	-	-	-
At 30 June 2014	3,194	414	201	-	3,809
Carrying amount					
At 30 June 2014	10,536	283	840	353	12,012
At 30 June 2013	9,310	235	897	357	10,799

Notes forming part of the Condensed Consolidated Financial Statements

7. Convertible Notes

	USD $'000
Amortised cost as at 1 January 2013	1,487
New issues in the period (at amortised cost)	1,197
Amortisation of finance costs	21
Effect of foreign exchange	(153)
Amortised cost at 30 June 2013	2,552
Embedded derivative as at 1 January 2013	60
New issues in the period	59
Fair value adjustment	48
Embedded derivative at 30 June 2013	167
Convertible notes	2,719

	USD $'000
Amortised cost as at 1 January 2014	3,008
New issues in the period (at amortised cost)	-
Interest Costs	92
Amortisation of finance costs	11
Effect of foreign exchange	178
Amortised cost at 30 June 2014	3,289
Embedded derivative as at 1 January 2014	64
New issues in the period	-
Fair value adjustment	(59)
Embedded derivative at 30 June 2014	5
Convertible notes	3,294
Disclosed as:	
Current liabilities	510
Non-current liabilities	2,784
Convertible notes	3,294

At 30 June 2014 there were 3,500,000 convertible notes in issue. Each note has a nominal value of AUD$1.00 and is redeemable at the option of the Company or the holder within the first 12 months of issue if mutual consent is given, and after this time at the option of the Company.

Notes forming part of the Condensed Consolidated Financial Statements

Tranche 1 of the notes comprising 3,000,000 notes are Convertible at any time by Note holders serving a Notice on the Company (giving not less than 60 days notice) on the basis of one ordinary share for every AUD$1.75 nominal of notes held. Any notes not converted will be redeemed on 31 December 2015 at a price of AUD$1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

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

Any notes not converted will be redeemed on 31 December 2014 at a price of AUD $1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

Fair Value

The Group implemented IFRS 13 "Fair Value Measurement" effective January 1, 2013, which affects fair value hierarchy disclosures, including requirements for interim reporting. IFRS 13 provides guidance on the measurement of fair value and requires disclosures about fair value measurements to increase transparency. It does not require any new measurements of assets or liabilities at fair value.

The conversion rights attached to the convertible notes represent an embedded derivative. This embedded derivative is the only financial liability measured at fair value. This financial liability as at 30 June 2014 is $5,000 (31 December 2013: $64,000). Derivative financial instruments are valued using internal models. The fair values are determined using option pricing models (Black Scholes), which use various inputs including current market prices for underlying instruments, time to expiry, current rates of return and volatility of underlying instruments. Prices are sourced from quoted market prices. Such instruments are classified within Level 2 as the inputs used in pricing models are generally market observable or derived from market observable data.

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

8. Contingent liabilities

A general commercial dispute has arisen between Etherstack plc's wholly owned US subsidiary Etherstack Inc. and one of its technology licensees, Datron World Communications Inc, "Datron".

This has resulted in legal action being initiated between Datron and Etherstack Inc. in late 2013 and in the 31 December 2013 financial statements Etherstack Inc provided in full against amounts receivable of USD $206,000 from the customer and accrued income on the project of USD $293,000.

The outcomes of the legal actions cannot be predicted or estimated at this time. Resolution of the dispute through mediation or other means may result in an additional amount becoming payable to Datron or a portion of the amounts receivable and accrued income at 30 June 2014 becoming recoverable by Etherstack Inc.

In common with other companies that hold intellectual property rights, from time to time, Etherstack receives challenges to its rights from third parties. The Directors do not believe any claim to have foundation and hence have not provided for any liability in the accounts.

Notes forming part of the Condensed Consolidated Financial Statements

9. Net tangible liabilities per share

	30 June 2014 US cents	30 June 2013 US cents
Net tangible liabilities per share	(23.39)	(9.29)

10. Post balance date events

In July 2014 the Company issued 540,000 convertible notes. Subscribers to the issue included Paul Barnes and Peter Stephens and other existing shareholders. Each note has a nominal value of AUD$1.00 and may be converted into fully paid ordinary shares for each AUD$0.40 of nominal note held. The notes have maturity dates between 31 January 2015 and 31 January 2016. The convertible notes carry an interest rate of 8% per annum.

11. 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.

Convertible notes

Mr Peter Stephens holds 250,000 convertible notes with a nominal value of AUD$250,000 (31 December 2013: 250,000) and Mr David Deacon holds 570,516 convertible notes with a nominal value of AUD$570,516 (31 December 2013: 570,516). Interest of $11,677 (2013: $12,584) and $26,647 (2013 $28,718) accrued in the period on the convertible notes held by Mr Peter Stephens and Mr David Deacon respectively. Payments of $8,874 (2013: $6,257) and $nil (2013: $14,280), respectively, were made in the period to each director with respect to the convertible notes. These convertible notes are dominated in AUD and presented above in the presentation currency of USD.

Loans to/ from related parties

Mr. David Deacon, a director of the Company, is owed $798,064 by the Group at 30 June 2014 (31 December 2013: $666,381). Loans to the Group of $86,623 and loan repayments of $26,657 were made in the period and interest of $30,607 accrued in the period.

This loan is denominated in AUD, is unsecured, bears interest at arms-length rates and is not due for repayment before 30 June 2015. At its option, the Company may make repayments before 30 June 2015. In addition, an entity related to Mr. Deacon had advanced a loan to the Group. Interest of $13,618 was accrued on this loan and $604,686 was outstanding at year 30 June 2014 (31 December 2013: 572,541). This loan is unsecured, bears interest at arm's length rates and is repayable in November 2015.

At 30 June 2014, the following amounts were payable to Directors of the company: David Deacon $275,093 (31 December 2013: $94,290), Peter Stephens $60,789 (31 December 2013: $35,317), Paul Barnes $67,812 (31 December 2013: $39,398) and Scott Minehane $23,154 (31 December 2013: $26,610). These are unsecured, interest free and not subject to specific repayment terms.

Other Related Parties

Beach Street Limited is a director related entity as Paul Barnes is a director and shareholder. In the half year to 30 June 2014, Beach Street Limited charged the group at arm's length rates, USD $nil for professional services (31 December 2013: $9,892). At 30 June 2014 USD $9,892 was owing to Beach Street Limited.

Directors' Declaration

In the opinion of the Directors:

(a) The financial statements and notes set out on pages 6 to 15*:*

- (i) comply with Accounting Standard IAS 34 Interim Financial Reporting
- (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the six months ended on that date; and

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

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

David Deacon
Director

27 August 2014

Corporate Information

Company Registration No. 7951056

ARBN 156 640 532

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

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

United Kingdom Registered Office
28 Poland Street
London W1F 8QN
United Kingdom

Australian Registered Office
Level 1
80 Abercrombie Street
Sydney, NSW, 2008
Australia

Auditor
Grant Thornton UK LLP
Statutory Auditor
Cambridge, United Kingdom

Stock Exchange Listing
Australian Securities Exchange
(Code: ESK)

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

Computershare Investor Services plc
The Pavilions, Bridgwater Road
Bristol BS99 6ZY
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