Appendix 4E

Preliminary final report

Name of Entity: **Etherstack plc**
ARBN: **156 640 532**

1. **Reporting Period ("current period"):** **Year ended 31 December 2015**
   Previous corresponding period: Year ended 31 December 2014

2. **Results for announcement to the market**

				31 Dec 2015 USD $000	31 Dec 2014 USD $000
Revenue	Down	68%	to	**2,263**	7,180
Statutory Profit/(Loss) from ordinary activities after tax attributable to members	Down	166%	to	**(5,979)**	(2,246)
Underlying (Loss)/Profit after tax for the period attributable to members (Note 1)	Down	1007%	to	**(3,500)**	386
EBITDA (Note 2)	Down	202%	to	**(1,088)**	1,069
Underlying EBITDA (Note 1)	Down	146%	to	**(703)**	1,529
Net cash (used in)/generated from operating activities in the period	Down	106%	to	**(130)**	2,286

Note 1: Etherstack plc considers underlying profit/(loss) after tax and underlying EBITDA to be a more suitable indicator of operating performance since it is not affected by impairment of intangibles or debt subject to claim and legal fees.

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

	31 Dec 2015 USD $000	31 Dec 2014 USD $000
Statutory Profit/ (loss) after tax	(5,979)	(2,246)
After tax effect of:		
Impairment to intangibles	2,094	2,172
Debt subject to claim and legal fees	385	460
Underlying profit/ (loss) after tax	(3,500)	386
EBITDA	(1,088)	1,069
Debt subject to claim and legal fees	385	460
Underlying EBITDA	(703)	1,529

Note 2: EBITDA is statutory net profit before tax adjusted to remove net finance costs, depreciation and amortisation.

Results Summary and Commentary - all amounts are in USD $000 unless otherwise indicated.

Revenues

Revenues have decreased by $4,917 from $7,180 in 2014 to $2,263 in 2015 representing a 68% decrease, although net cash generated by operating activities was ($130). This decrease is attributable to:

- Significant cash generating revenues for technology license sales revenue were correctly recognised in Q4 2014, although the cash receipts occurred in the 2015 financial year supporting cash generated by operating activities. These receipts as well as significant tax R&D credits received contributed positively to net cash generated by operating activities in 2015.
- Reduced level of activity on the Group's largest project during the period, being the continued rollout of a large scale P25 digital radio network being deferred to 2016 by the customer.
- Delays in the commencement of two major network upgrades for existing customers in North America. These projects were expected to contribute to 2015 revenues however commencement of both projects has been deferred and these are now expected to contribute positively to 2016 revenues.
- Sustained subdued activity levels in the US market. In 2015, the Group has announced projects with US customers including US Department of Interior. Notwithstanding these transactions, in general, the US market remains subdued and numerous participants in public safety communications have reported flat or reduced revenues and implemented cost reduction plans.
- New products uptake is progressing and gathering pace. The Group's Tactical Repeater product ("Go Box") was completed in 2014 and has been actively promoted in the US Market in late 2015. Additional business development and sales resources have been recruited to support this market development. The Group has built a significant opportunity pipeline and has field trials underway with potential US Federal government customers. The nature of the end users means that sales cycles can be long but initial sales, once made, are likely to lead to subsequent follow on purchases over several years. The Group received repeat orders of this new product in the Australian market during the 2015 period demonstrating positive reception by the lead customers.
- Support revenues grew modestly and this trend is expected to continue in 2016.

2016 and future revenue increases will be driven by:

- Two major upgrades expected to commence in 2015 which were delayed and are now expected to produce substantial revenues in 2016.
- Growth of revenue streams from new product launches.
- The Group's base of installed digital radio networks is progressively increasing which should facilitate medium term revenue opportunities through cumulative support contracts and network upgrades.

- An improvement in government capital infrastructure spending in the US market as the economy improves flowing through to the government wireless infrastructure spend.
- Successful resolution of the commercial dispute with a US licensee has prevented further diversion of management and other resources away from revenue generation.

The short term may remain volatile although the release of new products, in particular the Go Box, are intended to reduce reliance on a small number of large projects and, in conjunction with support and royalty streams, create an increased recurring revenue base and thereby reduce overall volatility.

Costs

Cost savings implemented in 2013 and 2014 have reduced the Groups cost base from $5,183 in 2014 to $4,901 in 2015 which is a reduction of $282 or 5.4%. The biggest item within this cost base is the amortisation of the intangible assets, which is a non cash cost and has increased by $469 over the 2014 cost to $2,723 in 2015. If this non cash item is excluded then the cost base has decreased by $751 relative to 2014.

Loss for 2015, Legal and other fees and Impairment charges

The Statutory loss for the year after tax is $5,979. This is a significant increase in the loss from 2014 when a loss of $2,246 was reported. Included in the 2015 and 2014 loss are two items which have negatively impacted the result.

- Legal fees and other costs were incurred in connection with a general commercial dispute between the Group’s US subsidiary and one of its technology licencees. These costs are $385 in the current year (2014 $460). This dispute was successfully settled in August 2015 and no further costs are expected.
- Impairment adjustment against intellectual property assets of $2,094 (2014 $2,172). The Board of Directors and Executive management have reviewed the intellectual property portfolio in the context of the decreased revenues for 2015 and revenue opportunities for 2016 and beyond.

Excluding the above costs, the underlying result for the 2015 full year is a loss of $3,500 compared to a profit after tax of $386 for 2014. This is a significant decrease on the result for 2014 and result reflects the following matters:

- Reduced revenues as outlined above - decrease from 2014 of $4,917
- Offsetting the reduced revenues are reductions in staff and overhead costs. Retrenchment and other termination costs in 2013 and the first half of 2014 meant that the full benefit of the reduction in salary costs was realised in the second half of 2014 and 2015.
- The amortisation charge in respect of Intellectual property assets, excluding the effect of the impairment charge outlined above, has increased from $2,254 in 2014 to $2,722 in 2015 as more products/developments reached the completion stage and accordingly, amortisation charges commence on these products/developments.
- Income tax credits of $468 (2014 $1,800) predominantly derived from Research & Development incentives in the UK. The 2014 credit represents the 2012 and 2013 credits as well as the 2014 credit while the 2015 amount relates only to the 2015 financial year.

Cash flows

Notwithstanding reduced revenues the cash outflow generated from operations was $130 (2014 inflow of $2,286). This modest outflow despite the larger statutory loss for the period reflects the significant non-cash items in the profit and loss account, in particular, the impairment to intangibles of $2,094 (2014 $2,172) and amortisation of intangibles of $2,723 (2014 $2,254).

Balance sheet

Etherstack plc is in the process of strengthening the balance sheet through a 3 for 1 entitlements issue. The purpose of the Offer is to strengthen the balance sheet net asset position and to provide additional working capital for the Company together with funding to repay debt and convertible notes. The company has is undertaking a renounceable entitlement issue of 3 CDIs for every 1 Share or CDI at an issue price of AUD $0.10 per CDI to raise up to AUD $9,594,235.

A pro forma 31 December 2015 balance sheet is set out below assuming that the entitlements issue had been completed and fully subscribed prior to 31 December 2015. Full details of the offer, the purpose and effect of the offer and risk factors will be set out in a prospectus.

	Actual 31 December 2015	**Pro Forma (Note 3) 31 December 2015**
	USD $000	**USD $000**
Non-Current assets		
Intangible assets	6,287	6,287
Property, plant and equipment	73	73
Trade and other receivables	150	150
	6,510	**6,510**
Current Assets		
Inventories	482	482
Trade and other receivables	1,591	1,591
Cash and bank balances	51	2,460
	2,124	**4,533**
Total assets	**8,634**	**11,043**
Non-Current liabilities		
Trade and other payables	180	180
Deferred tax liability	128	128
	308	**308**
Current Liabilities		
Trade and other payables	10,151	5,652
Current tax liabilities	145	145
	10,296	**5,796**
Total Liabilities	**10,604**	**6,105**
Net (Liabilities)/Assets	**(1,970)**	**4,938**
Equity		
Share capital	205	774
Share premium account	2,282	8,621
Merger reserve	3,497	3,497
Share based payment reserve	413	413
Foreign currency translation reserve	(1,764)	(1,764)
Retained earnings	(6,603)	(6,603)
	(1,970)	**4,938**

Note 3- This pro-forma balance sheet assumes the entitlement and the associated shortfall offer was fully subscribed as at 31 December 2015, the exchange rates at that date have been applied and assumptions made with respect to the application of the proceeds to debt, convertible note maturity and rollover and working capital increases.

Overall

2015 has been a difficult year for the Group from a revenue perspective with project commencement delays significantly impacting on our revenues. This timing issue has often manifested in Etherstack revenue patterns however the growth in non-project revenues will, over time, diminish the variations caused by timing issues.

The cost base has been restructured and reduced in 2013-2014 and the cost base for 2015 and beyond is at its lowest point for many years. Notwithstanding the reduced cost base the Group maintains the engineering skillsets and capacities to complete the developments in progress and to develop new technology to respond to opportunities in the future.

The combination of reduced cost base, network upgrades deferred from 2015, reduced amortisation charges following the impairment charges, new product opportunities and a strengthened balance sheet from the 2016 entitlements issue mean the Group is well placed for a significantly improved financial performance in 2016.

Current contract negotiations with an existing major customer, while not certain in outcome, are expected to have a significant positive contribution to the financial performance of the Group in 2016.

Dividends
No dividends are proposed.

Record date for determining entitlements to the dividends
Not applicable.

3. Consolidated statement of comprehensive income

	2015 USD $000	2014 USD $000
Revenues	**2,263**	**7,180**
Cost of sales	(1,429)	(2,906)
Gross profits	**834**	**4,274**
Foreign exchange gain	582	342
Other administrative expenses	(4,901)	(5,183)
Impairment loss	(2,094)	(2,172)
Debt subject to claim and legal fees	(385)	(460)
Total administrative costs	(6,798)	(7,473)
Operating loss	(5,964)	(3,199)
Finance costs	(483)	(606)
Loss before tax	(6,447)	(4,046)
Income tax benefit/ (expense)	468	1,800
Loss for the period	**(5,979)**	**(2,246)**
Other Comprehensive Income		
Items that will be classified to profit and loss:		
Foreign currency translation	19	(41)
Total comprehensive loss attributable to owners of the parent	**(5,960)**	**(2,287)**
Earnings per share		
Basic (in cents)	(18.6)	(7.2)
Diluted (in cents)	(18.6)	(7.2)

Revenue	**2015**	**2014**
	USD $000	**USD $000**
Licence fees, Design, development and supply of wireless communications technology	1,947	6,613
Royalties	123	385
Grant income	193	182
	2,263	7,180

Expenses

	2015	**2014**
	USD $000	**USD $000**
Depreciation	60	83
Dilapidation expense	5	19
Operating lease costs	534	640
Amortisation of intangible assets	2,722	2,254
Foreign exchange (gains)	(582)	(342)
Impairment loss	2,094	2,172
Debt subject to claim and legal fees	385	460
Finance costs – interest on loans and Convertible notes	483	606

4. Condensed consolidated balance sheet

	Note	2015 USD $000	2014 USD $000
Non-Current assets			
Intangible assets	9	6,287	9,622
Property, plant and equipment	10	73	137
Trade and other receivables	8	150	200
		6,510	9,959
Current Assets			
Inventories	7	482	179
Trade and other receivables	8	1,591	2,506
Cash and bank balances		51	443
		2,124	3,128
Total assets		8,634	13,087
Non-Current liabilities			
Trade and other payables	11	180	2,313
Deferred tax liability		128	168
		308	2,481
Current Liabilities			
Trade and other payables	11	10,151	6,518
Current tax liabilities		145	150
		10,296	6,668
Total Liabilities		10,604	9,149
Net Assets		(1,970)	3,938
Equity			
Share capital	12	205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		413	361
Foreign currency translation reserve		(1,764)	(1,783)
Retained earnings		(6,603)	(624)
Total equity		(1,970)	3,938

5. **Condensed consolidated statement of cash flows**

	2015 USD $000	2014 USD $000
Cash from operating activities	**(130)**	**2,286**
Investing activities		
Purchase of intangible assets	(1,577)	(2,339)
Purchases of property plant and equipment	(3)	(1)
Net cash used in investing activities	**(1,580)**	**(2,340)**
Financing activities		
Increase/(decrease) in loans	964	(86)
Net proceeds on issue of convertible notes	411	455
Net cash from financing activities	**1,375**	**478**
Net (decrease)/increase in cash and cash equivalents	**(335)**	**424**
Cash and cash equivalents at beginning of year	**443**	**29**
Effect of foreign exchange rate differences	(57)	(10)
Cash and cash equivalents at end of year	**51**	**443**

Reconciliation of cash from operating activities

	2015 USD $000	2014 USD $000
Operating loss after tax	**(5,964)**	**(3,199)**
Adjustments for:		
Amortisation of intangible assets	2,723	2,254
Impairment charge	2,094	2,172
Depreciation of property, plant & equipment	60	83
Equity settled share based transactions	51	-
Unrealised foreign exchange income	(582)	(362)
Operating cashflows before movements in working capital	**(1,618)**	**948**
(Increase)/Decrease in inventories	(303)	117
Decrease in receivables	347	344
Increase in payables	346	375
Increase/(Decrease) in Deferred Income	255	(96)
Increase in income tax payable	5	5
Cash (used in)/generated by operations	**(968)**	**1,693**
Income taxes received	1,067	836
Interest (paid)	(229)	(243)
Net cash (used in)/generated by operating activities	**(130)**	**2,286**

6. Statement of changes in equity

	Share Capital USD $000	Share Premium USD $000	Share Based payment USD $000	Merger reserve USD $000	Foreign Currency Translation reserve USD $000	Retained earnings USD $000	Total USD $000
Balance at 1 January 2014	**205**	**2,282**	**361**	**3,497**	**(1,742)**	**1,622**	**6,225**
Loss for the year	-	-	-	-	-	(2,246)	(2,246)
Other Comprehensive income	-	-	-	-	(41)	-	(41)
Total Comprehensive income	-	-	-	-	**(41)**	**(2,246)**	**(2,287)**
Share based payment charge	-	-	-	-	-	-	-
Balance at 31 December 2014	**205**	**2,282**	**361**	**3,497**	**(1,783)**	**(624)**	**3,938**
Loss for the year	-	-	-	-	-	(5,979)	(5,979)
Other Comprehensive income	-	-	-	-	19	-	19
Total Comprehensive income	-	-	-	-	**19**	**(5,979)**	**(5,960)**
Share based payment charge	-	-	52	-	-	-	52
At 31 December 2015	**205**	**2,282**	**413**	**3,497**	**(1,764)**	**(6,603)**	**(1,970)**

7. Inventories

	2015 USD $000	2014 USD $000
Finished goods and work in progress	482	179

8. Trade and other receivables

	2015 USD $000	2014 USD $000
Current		
Trade debtors	422	145
Accrued income from contracts in progress	94	765
Other debtors	773	676
Other debtors- income tax receivable	302	920
	1,591	2,506
Non-current		
Accrued income from contracts in progress	150	200

9. Intangible Assets

	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 2014	12,440	697	979	353	14,469
Additions	2,339	-	-	-	2,339
Exchange differences	-	-	(79)	-	(79)
At 31 December 2014	14,779	697	900	353	16,729
Additions	1,577	-	-	-	1,577
Exchange differences	-	-	(95)	-	(95)
At 31 December 2015	16,356	697	805	353	18,211
Accumulated amortisation					
At 1 January 2015	6,273	505	329	-	7,107
Charge for the year	2,604	71	48	-	2,723
Impairment loss	1,741	-	-	353	2,094
At 31 December 2015	10,618	576	377	353	11,924
Carrying amount					
At 31 December 2015	5,738	121	428	-	6,287
At 31 December 2014	8,506	192	571	353	9,622

10. Property, Plant and equipment

	Leasehold property USD $000	Furniture and equipment USD $000	Computer equipment USD $000	Total USD $000
Cost				
At 1 January 2015	243	347	726	1,316
Additions	-	-	3	3
Exchange differences	-	-	-	-
At 31 December 2015	243	347	729	1,319
Accumulated depreciation				
At 1 January 2015	184	275	720	1,179
Charge for the year	18	35	7	60
Exchange differences	3	4	-	7
At 31 December 2015	205	314	727	1,246
Carrying amount				
At 31 December 2015	38	33	2	73
At 31 December 2014	59	72	6	137

11. Trade and other payables

Current	2015 USD $000	2014 USD $000
Trade creditors and accruals	1,902	1,645
Other creditors	1,376	882
Other taxes and social security costs	1,044	1,127
Deferred income	558	130
Convertible notes at amortised cost	3,095	2,734
Embedded derivative at fair value	48	-
Other loans	2,128	-
	10,151	6,518
Non-current		
Convertible notes at amortised cost	-	702
Embedded derivative at fair value	-	91
Deferred income	180	354
Other loans	-	1,166
	180	2,313

12. Share capital

	2015 Number	2014 Number
Authorised		
Ordinary shares of 0.4p each	62,500,000	62,500,000

	2015 USD $000	2014 USD $000
Called up, allotted and fully paid		
31,980,784 ordinary shares of 0.4p each	205	205

13. Earnings per share

Details of basic and diluted EPS are as follows:

	2015 USD $000	2014 USD $000
Loss for the year	(5,979)	(2,246)
	Number	**Number**
Weighted average number of ordinary shares for basic earnings per share	31,980,784	31,980,784

14. Dividends

There are no dividends paid or proposed in respect of the current period or the prior period.

15. Dividend Reinvestment Plans

There are no dividend or distribution reinvestment plans in operation.

16. Net tangible assets

	2015 USD Cents	2014 USD Cents
Net tangible asset backing per ordinary share	(25.8)	(17.8)

17. Details of entities over which control has been gained or lost

There are no entities over which control was gained or lost in the current period.

18. Details of associates and joint venture entities

Not applicable.

19. Any other significant information

Not applicable.

20. Accounting standards

The preliminary final report has been prepared in accordance with ASX listing rule 4.3A and has been derived from the unaudited financial report. The financial report has been prepared in accordance with measurement and recognition (but not disclosure) requirements of International Financial Reporting Standards (IFRS).

As such, this preliminary final report does not include all the notes of the type included in an annual financial report.

The preliminary final report is presented in United States Dollars (USD).

21. Post balance date events

Etherstack is proposing a capital raise in order to provide additional working capital, enable substantial debt reduction and to significantly strengthen the balance sheet. The capital raise will take the form of a renounceable entitlement issue whereby shareholders and CDI holders will be offered rights to acquire 3 new fully paid ordinary shares in the capital of the Company or 3 new CDIs for every Share or CDI held. The rights will entitle the holder to acquire new Shares or CDIs at an issue price of 10 cents.

Shares or CDIs issued under the entitlement offer will rank equally with existing Shares and CDIs on issue on the record date. The Company will make application for official quotation of the new Shares proposed to be issued under the entitlement offer.

The proposal requires the approval of shareholders and a general meeting of shareholders will be held on 2nd March to approve the resolutions necessary for the proposed capital raise.

If approved by the shareholders at the general meeting and fully subscribed the capital raise will increase issued capital from 31,980,784 shares to 127,923,136 shares and increase the Company's shareholders funds by approximately AUD$9.594 million (before allowing for costs of the issue).

There are no other post balance date events.

22. Contingent liabilities

There are no Contingent liabilities at year end.

The contingent liability previously disclosed has been settled.

23. The report is based on accounts which are in the process of being audited.

Similar to the auditor's report for the 2014 financial statements, the auditor's report for the 2015 financial statements may contain an emphasis of matter paragraph in respect of the adoption of the going concern basis of accounting.