Etherstack plc
and controlled entities

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2013

ARBN 156 640 532	**Previous Corresponding Period: Half Year ended on 30 June 2012**

Results for Announcement to the market				**$'000**
Revenue from ordinary activities	Increased	2.1%	to	1,785
(Loss) profit from ordinary activities after tax attributable to members	Increased	84.0%	to	(3,152)
Net (loss) attributable to members	Increased	57.7%	to	(2,870)

Dividends

There were no dividends declared or paid during the period (30 June 2012: $nil) and the Directors do not recommend any dividend be paid.

Explanation

Revenues have remained consistent with the comparable 2012 half year at $1.785m. As in 2011 and 2012, the second half year is expected to significantly outweigh the first half year. The nature of our business means that revenues for a period can be impacted by the timing of a small number of large transactions which can span over more than one financial period, and the first half of 2013 has been impacted by delays in revenues that were anticipated to be delivered within that period. For the most part, these opportunities have not been lost to rival technologies or suppliers.

One of the positives to come out of the first half of 2013, was the development of new relationships with the Australian resources and mining sector. Customer relations have been solidified and are anticipated to bear greater returns in the second half of the year and into the future.

Loss from ordinary activities after tax has increased as a result of:

- Gross profit is slightly lower than the comparable period as a consequence of the sales mix between software products such as licences and royalties which have no or minimal direct costs of sales and hardware products which have Etherstack technology embedded. The first half year of 2013 has seen a number of royalty streams begin to bear consistent revenues.
- Additionally, the six months to 30 June 2012 realised a larger amount of engineering wages being capitalised as development costs $2.2m, as compared with 2013 $1.7m, as the focus shifted from development to client specific projects in 2013.
- Interest costs arising from the convertible note issues have also impacted in the first half of the year, adding $145,000 to the cost of financing the business. The convertible notes are denominated in Australian dollars.
- In 2012 the benefit arising from income tax losses was recognised while in 2013 no future income tax benefit has been recognised.

The interim financial report for the half year ended 30 June 2013 dated 15 November 2013, 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.

Revenues from other sources, in particular royalty revenue streams and revenue streams derived from product sales are increasing. However, 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
15 November 2013

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2013

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 six months ended 30 June 2013.

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 and results of operation

Despite a number of significant positive events in 2013 such as the signing of new licensing deals with Cisco, the commencement of the second stage of the company's largest utilities industry contract and the completion of some key international systems deployments such as the American Samoa Department of Homeland Security radio network, the results for the first half have been disappointing.

In October 2013, the company received its first order from the Commonwealth of Australia for tactical radio communications equipment for a federal government agency, which is an important company milestone.

Notwithstanding that revenues have remained consistent compared with the 6 months to 30 June 2012, the revenue outcome for the half year are below the revenues expected. The nature of our business means that revenues for a period can be impacted by the timing of a small number of large transactions. The first half of 2013 has been impacted by delays in revenues that were expected to be delivered in the first half of 2013. For the most part, these opportunities have not been lost to rival technologies or suppliers but have been driven by slower government demand in the international markets, particularly in North America.

Lower than expected level of revenue for the half year has created some short term cash pressures within the Group. In response, the Directors have raised convertible notes and loan funds as outlined below, and taken actions after the half year end 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 cost reduction strategies and other mitigation strategies as discussed in Note 2.1 to the accounts.

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. This support is noted below under Financing activities.

Loss from ordinary activities after tax has increased as a result of:

- Gross profit is slightly lower than the comparable period as a consequence of the sales mix between software products such as licences and royalties which have no or minimal direct costs of sales and hardware products which have Etherstack technology embedded. The first half year of 2013 has seen a number of royalty streams begin to bear consistent revenues.
- Additionally, the six months to 30 June 2012 realised a larger amount of engineering wages being capitalised as development costs $2.2m, as compared with 2013 $1.7m, as the focus shifted from development to client specific projects in 2013.
- Interest costs arising from the convertible note issues have also impacted in the first half of the year, adding $145k to the cost of financing the business. The convertible notes are denominated in Australian dollars.
- In 2012 the benefit arising from income tax losses was recognised while in 2013 no future income tax benefit has been recognised.

Financing activities

The support of the shareholders has been instrumental in completing the convertible notes issue in December 2012 and January 2013 of A$3,000,000 which has been supplemented by a further convertible note raise of A$500,000 in July 2013.

In the half year, David Deacon advanced loan funds to the company of US $427,000 and in September 2013 the Group entered a finance facility agreement provided by David Deacon providing US$535,000 in order to supplement working capital requirements. Note 2.1 to the accounts sets out more details of financing activities.

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
15 November 2013

Independent auditor's review report

To the members of Etherstack plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2013, which comprises the condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed 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 adopted by the European Union.

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 to the Company 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 2013 is not prepared, in all material respects, in accordance 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 2.1 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 2.1 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.

Ernst & Young LLP.

Ernst & Young LLP
Cambridge

15 November 2013

Condensed Consolidated Statement of Comprehensive Income
For the period ended 30 June 2013

	Six months ended 30 June 2013 (unaudited) $'000	Six months ended 30 June 2012 (unaudited) $'000
Revenue	1,785	1,748
Cost of sales	(1,362)	(1,143)
Gross Profit	423	605
Administrative expenses	(3,196)	(2,874)
Other expenses – net foreign exchange (losses) / gains	62	190
Group operating (loss) from continuing operations	(2,711)	(2,079)
Finance costs	(219)	(44)
(Loss) before taxation	(2,930)	(2,123)
Income tax (expense)/benefit	(222)	410
(Loss) after taxation for the period attributable to the equity holders of the parent	(3,152)	(1,713)
Other comprehensive income /(loss)		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	282	(107)
Total comprehensive (loss) for the period attributable to the equity holders of the parent	(2,870)	(1,820)
(Loss) /earnings per share attributable to the equity holders of the parent		
Basic (loss) for the period (in US cents)	(9.86)	(5.76)
Diluted (loss) for the period (in US cents)	(9.86)	(5.76)

The results above relate to continuing operations.

Condensed Consolidated Statement of Financial Position
As at 30 June 2013

	Note	30 June 2013 $'000 (unaudited)	31 December 2012 $'000 (unaudited)
NON-CURRENT ASSETS			Restated
Intangible assets	6	10,799	9,758
Property, plant and equipment		280	384
Trade and other receivables		-	517
		11,079	10,659
CURRENT ASSETS			
Inventories		332	371
Trade and other receivables		3,404	4,513
Cash and bank balances		138	272
		3,874	5,156
TOTAL ASSETS		14,953	15,815
CURRENT LIABILITIES			
Trade and other payables		2,418	2,030
Deferred revenue		109	144
Current tax liabilities		471	438
		2,998	2,612
NON-CURRENT LIABILITIES			
Interest bearing loans and borrowings		709	313
Convertible notes	7	2,719	1,547
Deferred revenue		402	353
Deferred tax liability		297	315
TOTAL LIABILITIES		7,125	5,140
NET ASSETS		7,828	10,675
EQUITY			
Share capital		193	205
Share premium account		2,201	2,282
Merger reserve		3,494	3,497
Share based payment reserve		304	290
Foreign currency translation reserve		(1,520)	(1,802)
Retained earnings		3,156	6,203
TOTAL EQUITY		7,828	10,675

Condensed Consolidated Statement of Changes in Equity
For the period ended 30 June 2013

For the half-year ended 30 June 2012	**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 2012	181	-	3,497	48	(1,900)	7,358	9,184
Loss for the period	-	-	-	-	-	(1,713)	(1,713)
Other comprehensive income for the period	-	-	-	-	(107)	-	(107)
Total comprehensive income for the period	-	-	-	-	(107)	(1,713)	(1,820)
Issue of ordinary shares	1	69	-	-	-	-	70
Share based payment charge	-	-	-	204	-	-	204
Effect of foreign exchange on equity	2	-	-	(8)	-	6	-
Balance at 30 June 2012 (unaudited)	184	69	3,497	244	(2,007)	5,651	7,638
For the half-year ended 30 June 2013							
Balance at 1 January 2013 (as previously stated)	205	2,282	3,497	290	(1,802)	6,165	10,637
Prior year amendment (Note 6)	-	-	-	-	-	38	38
Balance at 1 January 2013 restated	205	2,282	3,497	290	(1,802)	6,203	10,675
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)
Share based payment charge	-	-	-	23	-	-	23
Effect of foreign exchange on equity	(12)	(81)	(3)	(9)	-	105	-
Balance at 30 June 2013 (unaudited)	193	2,201	3,494	304	(1,520)	3,156	7,828

Condensed Consolidated Statement of Cashflows
For the period ended 30 June 2013

	Note	Six months 30 June 2013 $'000 (unaudited)	Six months 30 June 2012 $'000 (unaudited)
Operating (loss)		(2,711)	(2,079)
Adjustments for:			
Depreciation of property, plant and equipment		96	102
Amortisation of intangible assets	6	599	278
Amortisation of finance costs		21	-
Net foreign exchange gains		(62)	(190)
Equity settled share based transactions		23	204
Operating cash flows before movements in working capital		**(2,034)**	**(1,685)**
(Increase)/decrease in inventories		39	(49)
(Increase)/decrease in receivables		1,247	(712)
Increase in payables		833	1,276
Cash generated (used in)/from operations		**85**	**(1,170)**
Income taxes paid		-	(45)
Interest paid		(104)	(44)
Net cash flow (used in)/from operating Activities		**(19)**	**(1,259)**
Investing activities			
Purchases of intangible assets		(68)	(134)
Capitalised development costs		(1,727)	(2,140)
Purchases of property, plant and equipment		(21)	(305)
Net cash flow used in investing activities		**(1,816)**	**(2,579)**
Financing activities			
Increase in loans from Directors	11	413	1,149
Net Proceeds on issue of convertible notes	7	1,256	-
Proceeds on issue of ordinary shares		-	70
Net cash from financing activities		**1,669**	**1,219**
Net (decrease) in cash and cash equivalents		**(166)**	**(2,619)**
Cash and cash equivalents at beginning of period		272	2,660
Effect of foreign exchange rate changes		32	176
Cash and cash equivalents at end of period		138	217

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

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 2013 comprises the Company and its subsidiaries (together referred to as 'the Group'). The Group is primarily involved in wireless communication technology.

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 2012.

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 2012.

Etherstack plc, was incorporated on 15 February 2012 as MM&S (5698) plc. The Company changed its name to Etherstack plc on 4 May 2012. On 19 March 2012 a group reorganisation was undertaken whereby existing shares in Etherstack London Limited (formerly Etherstack Limited) were exchanged for shares in the Company on the same proportion of shareholding. As a result of the group reorganisation, Etherstack plc became the parent and ultimate holding company for the Etherstack Group in preparation for the listing of Etherstack plc on the Australian Stock Exchange.

An outcome of the reorganisation is that the former Etherstack London Limited shareholders held 100% of the issued shares in Etherstack plc at the date of the reorganisation. Although from a legal and taxation perspective Etherstack plc is considered as the purchaser in the reorganisation, the accounting treatment reflects the underlying economic substance of the reorganisation being the consolidated financial statements of Etherstack plc are a continuation of Etherstack London Limited.

The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the directors on 15 November 2013.

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 2013, the Group incurred a loss after tax of $3,152,000 (30 June 2012: loss of $1,713,000).

Revenue and cash results fell short of target for the first 6 months of the year, and this has created some short term cash pressures within the group. The Group operates without overdraft or loan facilities in place, and therefore is required to maintain a positive cash balance in order to meet liabilities as they fall due and fund the ongoing cash requirements of the business. As at the date of approval of the interim financial statements the Group had limited cash reserves. At 15 November 2013 available cash balances were $288,000.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

The validity of the going concern basis therefore depends on the achievement of revenue and cash targets set out in the business plan and planned cost savings being realised. The cashflow projections prepared by management indicate that the Group will be cash generative over the coming months, but the limited cash reserves currently available mean that there can be little slippage in these projections, especially over the next month when cash flows are particularly under strain, in order for a positive cash balance to be maintained. In the event these targets are not met alternative cash generating actions will need to be taken.

The Directors have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams, the risks of delays impacting on the timing of the expected cashflows, and cash reserves within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to overcome the short term cash pressures and to continue operations for at least 12 months from the date of approval. As noted above the forecasts prepared by management indicate little headroom for slippage in cash forecasts over the coming month in particular, and in the event that revenue and cash targets were not met then this would place a further strain on the limited cash reserves currently available. The majority shareholder of the Group has provided a written confirmation to the Group that were it required he would provide additional funds to the Group to enable it to meet its liabilities and fund the ongoing cash requirements of the business. This support is to be made available for one year from the date of signing of these interim statements, and is made to a level expected by the Directors to be appropriate to provide adequate contingency for a short term need of the business. The Directors note that the majority shareholder has provided such financial support to the Group in the past, and has also done so subsequent to the half year end as disclosed in Note 10, and are comfortable that this support will be available and provided as required. In addition to this, in the event that revenue and cash forecasts were not met the Directors have identified additional mitigating actions that could be undertaken over the next year to preserve and generate cash, such as further cost reduction and deferral strategies, a short term deferral of the investment in intellectual property assets, opportunities to bring forward the receipt of contracted revenue amounts and project milestone payments and actions to extend payment terms from suppliers. Additionally, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising and loan instruments.

The Directors acknowledge that there can be no certainty that these revenue targets or the timing of them will be in line with the cash flow forecast. In addition the Directors acknowledge that there is no certainty that the additional financial support from the majority shareholder will be available as required, or that the additional mitigating actions noted above will be achieved if they are required, and these uncertainties indicate the existence of a material uncertainty which 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.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

2.2. Financial reporting period

The interim financial information for the period from 1 January 2013 to 30 June 2013 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 2012 to 30 June 2012 and the audited financial year to 31 December 2012.

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 2012 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 2012.

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 2012.

New Standards, interpretations and amendments adopted by the Group

The Group applied for the first time, certain standards and amendments. These include: IAS 1 (Amendment) Presentation of Financial statements, IFRS 13 - Fair Value Measurement and IAS 19 (Revised) - Employee Benefits. These standards and amendments have no impact upon the financial statements.

Group Reorganisation

Etherstack plc, was incorporated on 15 February 2012 as MM&S (5698) plc. The Company changed its name to Etherstack plc on 4 May 2012. On 19 March 2012 a group reorganisation was undertaken whereby existing shares in Etherstack London Limited (formerly Etherstack Limited) were exchanged for shares in the Company on the same proportion of shareholding. As a result of the group reorganisation, Etherstack plc became the parent and ultimate holding company for the Etherstack Group in preparation for the listing of Etherstack plc on the Australian Stock Exchange.

The outcome of the reorganisation is that the former Etherstack London Limited shareholders wholly owned the issued shares in Etherstack plc group at the date of the reorganisation. Although from a legal and taxation perspective Etherstack plc is considered as the purchaser in the reorganisation, the accounting treatment reflects the underlying economic substance of the reorganisation being the consolidated financial statements of Etherstack plc are a continuation of Etherstack London Limited.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

Accordingly, the Consolidated Statement of Comprehensive Income comprises the financial performance of the Etherstack London Limited group for the six months and the comparative financial information comprises the consolidated results of the Etherstack London Limited group of companies from 1 January 2012 to 19 March 2012. The Consolidated Statement of Financial Position reflects the Etherstack group as at 30 June 2013 and 30 June 2012. The equity structure at each balance sheet date reflects the share structure of the ultimate holding company.

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, Singapore 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.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

6. Intangible assets

	Capitalisation of development costs $'000	Engineering software $'000	Customer contract intangible $'000	Goodwill $'000 (Restated)	Total $'000 (Restated)
Cost					
At 1 January 2012	4,467	327	1,122	353	6,269
Additions	2,140	134	-	-	2,274
Exchange differences	-	2	(1)	-	1
At 30 June 2012	6,607	463	1,121	353	8,544
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
Accumulated amortisation					
At 1 January 2012	277	183	62	-	522
Charge for the period	158	107	13	-	278
Exchange differences	-	2	-	-	2
At 30 June 2012	435	292	75	-	802
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
Carrying amount					
At 30 June 2013	9,310	235	897	357	10,799
At 30 June 2012	6,172	171	1,046	353	7,742

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.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

Prior year adjustment

Goodwill has been increased by $353,000 with effect from 1st January 2012 to correctly apply the Group's accounting policy for business combinations. The restatement has been made to record the deferred income tax liability on the customer contract intangible asset that initially arose on acquisition of Auria Wireless Pty Limited.

As a result of the restatement, the following adjustments have been made to the previously reported Statement of Comprehensive Income and the Statement of Financial Position for the years ended 31 December 2011 and 31 December 2012. This is reflected in the table below:

	31 December 2012	31 December 2011
	$'000	$'000
Deferred tax credit recorded in income statement	(38)	-
Deferred tax liability	(315)	(353)
Goodwill	353	353

7. Convertible Notes

	$'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

At 31 December 2012 there were 1,520,516 of convertible notes on issue and in the half year a further 1,479,484 were issued meaning, there were 3,000,000 of convertible notes on issue at 30 June 2013. 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. The 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 based on the higher of 10% and the 90 day bank bill swap rate plus 6% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

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 2013 $167,000 (31 December 2012: $60,000). 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

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.

9. Net tangible liabilities per share

	30 June 2013 US cents	30 June 2012 US cents
Net tangible liabilities per share	(9.29)	(3.08)

Unaudited Notes forming part of the Condensed Consolidated Financial Statements

For the six months ended 30 June 2013

10. Post balance date events

(a) In July 2013, the Company conducted a convertible note issuance, raising a further AUD$500,000 before issue costs ($456,650). These funds will be used to fund additional working capital for the Group.

The convertible notes have a nominal value of AUD$1 and are 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. The Notes are convertible at any time by the Noteholder on the basis of one ordinary share for every AUD$1.20 of nominal 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 of rate of 10% per annum payable quarterly in arrears within 5 business days of 31 March, 30 June, 30 September and 31 December.

(b) On 2 September 2013, the Company arranged a loan with David Deacon and drew down $535,000. David Deacon is a Director and shareholder. These funds will be used to fund additional working capital for the Group. The terms of the loan are;

- 5% p.a. interest rate
- Unsecured; and
- Maturity on 20 September 2015

(c) On 15 November 2013, the Group completed a significant licence transaction with a radio manufacturer which will generate $1 million in revenue and short term cashflow.

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 2012: 250,000) and Mr David Deacon holds 570,516 convertible notes with a nominal value of AUD$570,516 (31 December 2012: 570,516). Interest of $12,584 (2012 nil) and $28,718 (2012 nil) accrued in the period on the convertible notes held by Mr Peter Stephens and Mr David Deacon respectively. Payments of $6,257 (2012 nil) and $14,280 (2012 nil), respectively, were made in the period to each director with respect to the convertible notes.

Loans to/ from related parties

Mr. David Deacon, a director of the Company, is owed $708,933 by the Group at 30 June 2013 (31 December 2012: $313,224). Loans to the Group of $427,218 and loan repayments of $13,987 were made in the period and interest of $19,867 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 2014. At its option, the Company may make repayments before 30 June 2014.

Directors' Declaration

In the opinion of the Directors:

(a) The financial statements and notes set out on pages 6 to 18*:*

  (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 2013 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

15 November 2013

Shareholders 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)

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

Share Registrars
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