



Etherstack plc AND CONTROLLED ENTITIES

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

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Etherstack plc
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Corporate Directory

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
United Kingdom

Website

www.etherstack.com

Etherstack plc

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Strategic Report

On behalf of the Board of Directors, I am very pleased to present this Strategic Report of the activities of Etherstack plc for 2015.

Principal Activities

The principal activities of the Group throughout the year 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.

Etherstack specialises in wireless technology. Specifically, Etherstack develops software for use in transceivers which enable the transceiver to communicate with a radio network and other transceivers.

Etherstack licenses its software and designs to companies who manufacture telecommunication equipment primarily for government public safety agencies and utilities.

Etherstack derives its primary revenues in the following manner:

- ☐ technology access licenses, which are lump sum payments, payable at the commencement and at defined stages of a contract;
- ☐ royalties which are periodic payments payable over the life of a contract;
- ☐ from "white labelled" equipment sales to original equipment manufacturers (where Etherstack sells its products to a customer with no Etherstack branding and the customer puts its own brand on it and sells it under its own brand);
- ☐ manufactured equipment sales, such as the sale of specialist government radio equipment;
- ☐ system solution sales, where Etherstack sells its products and software and then provides ongoing support systems;
- ☐ service fees for specific services provided by Etherstack to its customers;
- ☐ bespoke wireless technology design services, being the customisation of existing intellectual property or specific client applications; and
- ☐ ongoing warranty and support services provided to the customer.

Etherstack has a substantial intellectual property portfolio that generates a diverse range of revenue from multiple technology areas and clients, and a mix of mature, new and emerging product lines.

Review of 2015 - 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. 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.

Strategic Report

- 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.

Revenue Outlook

2016 and future revenue increases will be driven by:

- Two major projects expected to commence in 2015 which were delayed are now expected to produce substantial revenues in 2016.
- Growth of revenue streams from new product launches. As noted above the Go-Box product has been actively promoted in late 2015. The Group's new LTE25 secure 3G/4G smartphone application that integrates with traditional public safety radio networks has been selected for pilots and trials with policing agencies in three countries. The Group expects to see its first revenues from this new product line in 2016.
- 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.
- Improvements 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.
- The Group's new product known as the PTT unifying controller or "PTT Box" has gained traction and initial sales are expected in 2016.

Costs and cost containment

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 \$750 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.

- 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.

Etherstack plc

Financial report for the year ended 31 December 2015

Strategic Report

- 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.

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

	31 Dec 2015	31 Dec 2014
Statutory 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 (loss)/profit after tax	<u>(3,500)</u>	<u>386</u>

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 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 \$2,723 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.

Of particular importance is the EBITDA and underlying EBITDA. Although both these measures have declined they indicate the cash outflows are significantly less than the reported statutory losses.

	31 Dec 2015	31 Dec 2014
EBITDA	(1,087)	1,067
Debt subject to claim and legal fees	385	460
Underlying EBITDA	<u>(702)</u>	<u>1,527</u>

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

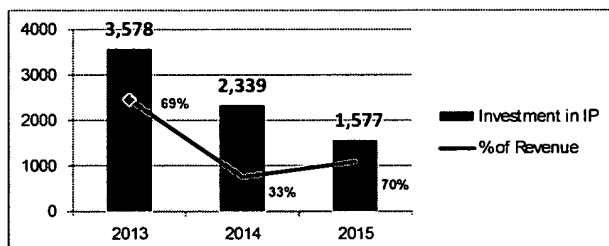
Cash flows

Notwithstanding reduced revenues the cash outflow generated from operations was \$129 (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).

Strategic Report

Intellectual property developments

The Group continues to invest significantly in intellectual property assets and in the 2015 financial year Etherstack invested \$1,577 in developing its portfolio of intellectual property assets. This 2015 investment represents 70% of revenue. The average annual investment in intellectual property over the last 3 years is \$2,496 which is on average of 57% of revenue.



Graph 1: Intellectual property investment from 2013 to 2015

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled \$2,263 compared to \$7,180 in 2014. The major reasons underlying the decrease in revenues have been outlined above.

The second key performance indicator is recurring revenues representing royalty revenues and revenues from support and maintenance contracts. These revenues are important as they reduce reliance on project based revenues which, although significant, can be volatile in nature. Combined royalty revenue and support/maintenance for 2015 was \$595 compared to \$697 in 2014. The royalty component decreased in 2015, as the sectors our licensees sell into, were subdued however the Group increased its support revenues to \$472 from \$312 in 2014. The expectation is that royalty and support/maintenance income for 2016 will be greater than 2015 as a result of the commercial maturity of a number of our products and a growing installed base of supported customer networks.

Another key performance indicator for the Group is the investment in the development of intellectual property assets. As seen in the graph above this year Etherstack invested 70% of its revenue into intellectual property assets which over the last three years accounts an average of 57% of total revenue.

2016 Capital Raising

The Company is currently undertaking 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 offer whereby shareholders and CDI holders will be offered rights to acquire 3 new CHESS Depository Interests (CDIs) issued over a fully paid ordinary share in the capital of the Company (Share) for every 1 Share or CDI held (Offer). The rights will entitle the holder to acquire CDIs at an issue price of AUD 10 cents. Full details of the raise are set out in the Prospectus.

If fully subscribed the capital raise will increase the issued share capital of the Company from 31,980,784 Shares to 127,923,136 Shares and increase the Company's shareholder funds by approximately \$7.195 million (AUD\$9.594 million) before costs of the issue.

The 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.

Etherstack plc

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Strategic Report

	Actual 31 December 2015	Pro Forma 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	5,797
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)
Total equity	(1,970)	4,938

Risks

The management of the business and the execution of the Group's strategy expose it to a number of risks. These risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them.

Strategic Report

Key business risks affecting the Group are set out below.

□ **Dependence on key contracts**

Etherstack is dependent on a number of key contracts. Growing the total revenue of the Group will reduce the significance of individual contracts or projects relative to the Groups total revenue. In addition, growth of royalty revenues streams stemming from products reaching commercial maturity reduces dependence on individual contracts. However the impact of individually significant contracts remains in existence at the balance sheet date.

□ **Technology risk**

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

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

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

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

□ **Economic and exchange rate risk**

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

□ **Product liability and uninsurable risk**

The Group is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products and technologies. The Group has secured insurance to help manage such risks.

□ **Liquidity risk**

The Group aims to mitigate liquidity risk by managing cash generation by its operations, and applying cash collection targets throughout the Group. Investment is carefully controlled, with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate appropriate levels of working capital and when necessary to facilitate fund raising activities.

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Strategic Report

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 2016 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.

The strategic report is approved by the Board of Directors and signed on its behalf by:



David Deacon
Group Chief Executive Officer

Etherstack plc

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Directors and Key Management

Board of Directors

Peter Stephens – Non-Executive Chairman

Peter is currently Chairman of ASX quoted Etherstack, Chairman and CIO of Cavendish Ware, Wealth managers and a director of various private companies. He also runs a venture capital practice. He was Chairman of Getech on flotation on AIM in 2005 until 2013 and remains a director. Peter has recently become Chairman of BLL Bespoke, a long haul holiday specialist currently focused on Africa and GapCap, an invoice financing company. He was a director of Tristel plc from flotation on London Stock Exchange's AIM market in 2005 until 2013. He was previously Head of European Equities Sales at Salomon Brothers and Credit Lyonnais. He has an MA in Jurisprudence from Oxford University and qualified as a Barrister in 1978.

Peter has been on the board of Etherstack London Limited since September 2007 and was appointed to the Board of Etherstack plc in 2012 as Non-Executive chairman of the Board and chairman of the Remuneration Committee and Nomination Committee.

Paul Barnes, FCCA MCSI – Non-Executive Director

Paul has wide experience in venture development, financial strategy and management, corporate finance and M&A disciplines.

Paul started his career with the City of London accounting firm Melman Pryke & Co (now part of Grant Thornton). Following qualification, he then worked in both accountancy practice and commerce, specialising in developing businesses in a wide range of activities from software development and commercial property to regulated commodities brokers, taking senior management positions with a successful freight importer and a full service executive jet aviation company.

Paul co-founded and raised funds for various successful "start-up" businesses in property and telecommunication sectors including UK Telecom plc and subsequently in the securities industry and healthcare and biomass renewable sectors.

Paul has been a key member of the teams in the development and admission to the London Stock Exchange's AIM market of both Tristel plc and Oxford Catalysts plc raising substantial funds for both companies, where he served as the Executive Finance Director and in the establishment of Amersham Investment Management Limited an FCA regulated investment management firm.

Paul is a Fellow of the Association of Chartered Certified Accountants, a registered auditor in the UK and a member of the UK's Chartered Institute for Securities and Investment.

Paul joined Etherstack in 2002 as Finance Director and CFO, and held these positions throughout the development and expansion of Etherstack until December 2011. Paul was appointed a Director of Etherstack plc in February 2012.

Scott Minehane – Non-Executive Director

Scott is an international regulatory and strategy expert in the telecommunications sector and has been involved in advising investors, operators, Governments and regulators in Australia, Asia, the Pacific and South Africa. His expertise extends to spectrum management and new generation fixed and mobile technologies including 4G.

Scott has a separate consultancy practice, through which he has advised a range of leading corporates and organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, World Bank, International Telecommunications Union (ITU), Competitive Carriers Coalition ('CCC'), Leighton Holdings, Macquarie Telecommunications, IDA Singapore, National Broadcasting and Telecommunications Commission (Thailand), TRA (UAE), Telekom Malaysia, Axiata Group, Telkom South Africa and Telecom NZ.

Scott has a Bachelor of Economics and a Bachelor of Laws from the University of Queensland and holds a Master of Laws specialising in Communications and Asian Law from the University of Melbourne.

Scott joined the Board as an Independent Non-Executive Director in 2012 and is chairman of the Audit & Risk Management Committee.

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Directors and Key Management

David Deacon – Group CEO, Executive Director

David has almost 20 years' experience in the wireless communications industry. Prior to Etherstack, David founded and ran an Australian wireless technology company, Indian Pacific Communications Pty Ltd, for six years until it was sold to a public company in April 2000. Before this, David led software development teams involved in wireless research and development in Perth and Sydney.

David founded Etherstack in 2002 and has been Chief Executive Officer since that date. In this time, David has overseen Etherstack's growth into a global operation and the development of industry leading wireless communications technology assets.

Senior management

John Boesen – Chief Operating Officer

John joined Etherstack as Head of Engineering of the Networks Divisions in 2012, bringing with him over 20 years' experience in leading product and engineering teams to commercialise innovative and mission critical software and hardware solutions. John was appointed Chief Operating Officer in January 2014.

Prior to Etherstack, John has lead multi-disciplinary innovation and delivery focused teams, ran program management functions, undertaken process re-engineering, delivered successful technology and cultural change management programs, developed strategies to drive market growth and mentored leaders on all aspects of leadership and high performance.

John has a Bachelor of Science from University of New South Wales majoring in Mathematics and Computer Science.

David Carter – Chief Financial Officer and Company Secretary

David worked within the audit and assurance practice of Coopers & Lybrand and PricewaterhouseCoopers for 12 years in Australia and The Netherlands.

David has held senior finance roles in IT companies including Dimension Data and Computer Science Corporation and was CFO and company secretary of a software reseller and engineering services provider before joining Etherstack as CFO in September 2011.

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

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Corporate Governance Report

At 31 December 2015

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc Group of companies (the Group). Etherstack plc (the Company) is a wireless communications technology provider whose strategy is to add substantial shareholder value through the design, development and deployment of products for radio communication networks used by governments, such as those used by defence and police forces, public safety departments, such as ambulance and fire, and radio networks used by utilities, such as electricity companies. The Board has adopted a corporate governance framework which it considers to be suitable given the size, history and strategy of the Company.

Further details relating to the Company's corporate governance practices can be found on the Company's website at www.etherstack.com in the "Investor" section under "Corporate Governance".

Principle 1: Lay solid foundations for management and oversight

The Board of Directors is responsible for the overall strategy, governance and performance of the Company.

Board Charter

The Board has adopted a formal Board Charter which clearly details its functions and responsibilities and delineates the role of the Board from that of the senior executives. The Board's function and responsibilities include strategy and planning, corporate governance, appointment of the Chief Executive Officer (CEO), remuneration, capital expenditure and financial reporting, performance monitoring, risk management, audit and compliance, developing and monitoring diversity policies and objectives.

Executive Directors are provided with executive contracts of employment and Non-Executive Directors are provided with service agreements setting out the key terms and conditions relative to that appointment.

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

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

Principle 2: Structure the board to add value

Structure of the Board

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

Mr Peter Stephens, Chair – Independent, Non-Executive Director

Mr Paul Barnes – Non-Executive Director

Mr Scott Minehane – Independent, Non-Executive Director

Mr David Deacon – Group CEO and Executive Director

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

The skills, experience and expertise of each Director are set out on pages 10 and 11. At all times, the Board is to have a complementary mix of financial, industry and technical skills. The Board believes the current members have the necessary knowledge and experience to direct the Group. A summary of Board members skills is set out below.

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Corporate Governance Report

At 31 December 2015

Experience and skills	Number of directors
International business	4
Strategy and innovation	4
Management and leadership	4
Accounting, finance and banking	2
Equity, capital markets, mergers and acquisitions	4
Corporate governance	2
Regulatory and compliance	2
IT/Technology	4
Legal	2
Chief executive officer, Chief financial officer or Chief operating officer experience	4

Chairman's responsibilities and independence

The Board Charter provides that the Chairman of the Board is responsible for the leadership of the Board, ensuring the Board is effective, setting the agenda of the Board, conducting Board meetings and conducting shareholder meetings.

The Chairman of the Board, Peter Stephens, is an Independent Non-Executive Director.

Board independence

An independent Director, in the opinion of the Board, must be independent of management and have no business or other relationship that could materially interfere with – or could reasonably be perceived materially to interfere with – the independent exercise of that director's judgement. Any independent Director will meet the definition of what constitutes independence as set out in the ASX Recommendations. The materiality thresholds are assessed on a case-by-case basis, taking into account the relevant Director's specific circumstances, rather than referring to a general materiality threshold.

At this time, there are two Directors the Board has classified as independent - the Non-Executive Chairman Mr Peter Stephens, and Mr Scott Minehane.

The Board Charter states that the Board aims to have at all times a Board of directors with at least two independent Non-Executive Directors and having the appropriate mix of skills, experience, expertise and diversity relevant to the Company's businesses and the Board's responsibilities.

Corporate Governance Report

At 31 December 2015

Board committees

To assist the Board in carrying out its functions, the Board has established:

- ☐ an Audit and Risk Management Committee;
- ☐ a Remuneration Committee; and
- ☐ a Nomination Committee.

Each Committee is established according to a Charter that is approved by the Board. Each Committee is entitled to the resources and information it requires to discharge its responsibilities, including direct access to senior executives, employees and advisers as needed. Terms of reference of each committee, explaining its role and the authority delegated to it by the Board, are available on the Company's website. The committee chairmen report regularly to the whole board and are required to confirm that the committees have sufficient resources to undertake their duties.

Nomination Committee

The Nomination Committee must have a majority of independent Directors. The chair of the Board shall chair the Nomination committee. Peter Stephens, Scott Minehane, and David Deacon are members of this committee. Peter Stephens acts as chairman of the committee. When appointing members of each committee, the Board shall take account of the skills and experience appropriate for that committee as well as any statutory or regulatory requirements. The responsibilities of the committee include reviewing Non-Executive Director remuneration, assessing the skills, diversity and necessary industry, technical or functional experience required by the Board, recommending directors for re-election and conducting searches for new Board members when required.

Director selection process and Board renewal

The composition of the Board is reviewed regularly to ensure the appropriate mix of skills, diversity and expertise is present to facilitate successful strategic direction.

As detailed in the Board Charter, in appointing new members to the Board, consideration is given to the ability of the appointee to contribute to the ongoing effectiveness of the Board, to exercise sound business judgement, to commit the necessary time to fulfil the requirements of the role effectively and to contribute to the development of the strategic direction of the Company. Consideration will also be given to achieving a Board with a diverse range of backgrounds.

The process used for selecting new members for the Board, as set out in the Board Charter, may be assisted by the use of external search organisations as appropriate. An offer of a Board appointment will be made by the Chairman of the Board only after having consulted all Directors. Detailed background information in relation to a potential candidate is provided to all Directors.

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2015 included an assessment of the performance of the Board, the Board Committees, and each Director. The review:

- ☐ compared the performance of the Board and each Committee with the requirements of its Charter;
- ☐ critically reviewed the composition of the Board; and
- ☐ reviewed the Board and each Committee Charter to consider whether any amendments to the Charters were deemed necessary or appropriate.

The Board discussed the results of the review and follow up actions on matters relating to Board process and priorities.

Induction

The Company Secretary facilitates an induction program for new Directors. The program will include meetings with senior executives, briefings on the Company's strategy and operations, provision of all relevant corporate governance material and policies and discussions with the Chairman and other Directors.

Corporate Governance Report

At 31 December 2015

Continuing education

Directors are provided with continuing education opportunities to update and enhance their skills and knowledge. This consists of regular updates for the Board from management, separate to Board meetings to ensure Non-Executive Directors are well-informed of the Company's operations and any recent developments.

Access to information, indemnification and independent advice

The Company Secretary provides assistance to the Board, and Directors also have access to senior executives at any time to request any relevant information. The Board Charter provides that:

- ☐ all Directors have unrestricted access to company records and information except where the Board determines that such access would be adverse to the Company's interests;
- ☐ all Directors may consult management and employees, as required, to enable them to discharge their duties as Directors; and
- ☐ the Board, Board Committees or individual Directors may seek independent external professional advice as considered necessary at the expense of the Company, subject to prior consultation with the Chairman. A copy of any such advice received is made available to all members of the Board.

Conflicts of interest

The Constitution and Code of Business Conduct and Ethics sets out the obligations of Directors in dealing with any conflicts of interest. Pursuant to the Constitution and the Code of Business Conduct and Ethics, Directors are obliged to:

- ☐ disclose to the Board any actual or potential conflicts of interest which may exist as soon as they become aware of the issue;
- ☐ take any necessary and reasonable measures to resolve the conflict; and
- ☐ comply with all laws in relation to disclosure of interests and restrictions on voting.

Unless the Board determines otherwise, a Director with any actual or potential conflict of interest in relation to a matter before the Board, does not:

- ☐ receive any Board papers in relation to that matter; and
- ☐ participate in any discussion or decision making in relation to that matter.

Operation of the Board

The Board met 4 times during the year. The agenda for each meeting allows an opportunity for the Chairman and Non-Executive Directors to meet without executives present. The agenda and relevant briefing papers are distributed by the company secretary on a timely basis, usually a week in advance of each Board meeting.

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

	Board meetings		Audit and Risk Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Peter Stephens	4	4	3	3	1	1	1	1
Paul Barnes	4	4	3	3	1	1	-	-
David Deacon	4	4	-	-	-	-	1	1
Scott Minehane	4	3	3	3	1	1	1	1

Corporate Governance Report

At 31 December 2015

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

The Company has implemented a corporate Code of Business Conduct and Ethics (the Code) which applies to Directors and all employees. The Code provides a framework for decisions and actions for ethical conduct. It underpins the Company's commitment to integrity and fair dealing in its business affairs and to a duty of care to all employees, clients and stakeholders. The Code sets out the principles covering appropriate conduct in a variety of contexts and outlines the minimum standard of behaviour expected from Directors and employees.

Employees are encouraged to raise any matters of concern in good faith with the head of their business unit without fear of retribution. Where the matter is inappropriate to be raised with the head of their business unit, employees are able to raise the matter with the CEO or CFO as appropriate.

The CFO reviews and reports directly to the Board on any material breaches of the Code. The Audit and Risk Committee oversees procedures for whistleblower protection.

A copy of the Code is available on the Company's website in the "Investor" section under "Corporate Governance".

Dealings in securities

The Company has implemented a Securities Trading Policy which covers dealings in the Company's securities by its Key Management Personnel (Directors and those employees reporting to the CEO). The Securities Trading Policy sets out the guidelines for trading in the Company's securities, including closed periods, exceptions and approval and notification requirements.

A copy of the Securities Trading Policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Diversity

The Company has implemented a Diversity Policy.

The Company considers that the gender ratio of employees reflects the gender ratio of the qualified engineer pool. The Company does not, therefore, believe that establishing measurable objectives for achieving gender diversity would provide any benefit above that already achieved via the Diversity Policy.

At the date of this report, the gender ratio is as follows:

- ☐ 4 Board members: all male,
- ☐ Chief Operating Officer and Chief Financial Officer: both male,
- ☐ Workforce (excluding senior management and executive directors): 36 Employees: 4 female, 32 male

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

Principle 4: Safeguard integrity in financial reporting

Audit and Risk Management Committee

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

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

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

Etherstack plc

Financial report for the year ended 31 December 2015

Corporate Governance Report

At 31 December 2015

Audit and Risk Management Committee composition

The Audit and Risk Management Committee consists only of Non-Executive Directors and the Chairman is not the Chairman of the Board. The members of the Audit and Risk Management Committee are Mr Scott Minehane, Chair of the Committee, Mr Peter Stephens and Mr Paul Barnes. Both Mr Scott Minehane and Mr Peter Stephens are Independent Non-Executive Directors.

Meetings are attended by the lead external audit partner and, by invitation, the Group Chief Executive Officer and the Chief Financial Officer.

The Board of Directors has received assurance from the Group Chief Executive Officer and the Chief Financial Officer a declaration the financial information included in the annual report is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

Etherstack's external auditor attends the Company's Annual general meeting and is available to answer questions which shareholders may have about the conduct of the external audit for the relevant financial year and the preparation and content of the Audit Report.

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

- ☐ compliance with the requirements of the ASX Listing Rules, all relevant regulations and the ASX Recommendations;
- ☐ facilitation of an efficient and informed market in the Company's securities by keeping the market apprised through ASX announcements of all material information.

The Company has implemented a Disclosure Policy which is designed to support the commitment to a fully informed market in the Company's securities by ensuring that announcements are:

- ☐ made to the market in a timely manner, are factual and contain all relevant material information; and
- ☐ expressed in a clear and objective manner that allows investors to assess the impact of the information when making investment decisions.

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

Principle 6: Respect the rights of shareholders

The Company has adopted a Communications Policy which aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders through:

- ☐ half yearly and annual reports;
- ☐ disclosures and announcements made to the Australian Securities Exchange (ASX);
- ☐ notices and explanatory memoranda of Annual General Meetings and Extraordinary General Meetings and addresses or presentations made at those meetings; and
- ☐ the Company's website.

The Board also encourages participation by shareholders at all shareholder meetings.

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

Corporate Governance Report

At 31 December 2015

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

- ☐ its culture, processes and structures facilitate realisation of the Company's business objectives whilst material risks are identified, managed, monitored and wherever appropriate and possible, mitigated; and
- ☐ to the extent practicable, its systems of risk oversight, management and internal control comply with ASX Recommendations.

The Board determines the Company's risk profile and is responsible for overseeing and approving the Company's risk management strategy and policies, internal compliance and internal control.

The Board has delegated to the Audit and Risk Management Committee responsibility for implementing the risk management system and reporting to the Board.

The Audit and Risk Committee reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound and such a review has taken place in relation to 2015.

The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report to the Audit and Risk Management Committee.

Etherstack does not have any material exposure to economic, environmental and social sustainability risks.

A copy of the Company's risk management policy is available on the Company's website in the "Investor" section under "Corporate Governance".

Principle 8: Remunerate fairly and responsibly

The Board has established a Remuneration Committee, which is governed by the Remuneration Committee Charter. The Charter is available on the Company's website in the "Investor" section under "Corporate Governance".

The primary purpose of the Committee is to support and advise the Board in fulfilling its responsibilities to shareholders by:

- ☐ reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ☐ ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- ☐ recommending to the Board the remuneration of executive Directors;
- ☐ fairly and responsibly rewarding executives having regard to the performance of the Company, the performance of the executive and the prevailing remuneration expectations in the market;
- ☐ reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- ☐ reviewing and approving the remuneration of direct reports to the Chief Executive Officer, and as appropriate other senior executives and conducting an annual review of remuneration by gender; and
- ☐ reviewing and approving any equity based plans and other incentive schemes.

A performance evaluation was undertaken in the reporting period in accordance with the periodic performance evaluation process.

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

Directors' Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2015. All amounts are in USD \$000 unless otherwise indicated.

This report should be read in conjunction with the Strategic Report on pages 3 to 9.

1. Board of Directors and Officers of the company

The names of the Directors who held office during the 2015 year and to the date of this report were:

Director Name	Position	Appointed
Peter Stephens	Non-Executive Chairman	22 May 2012
Paul Barnes, FCCA	Non-Executive Director	15 February 2012
David Deacon	Executive Director and CEO	15 February 2012
Scott Minehane	Non-Executive Director	22 May 2012

The joint company secretaries are Paul Barnes and David Carter.

2. Results

The Group realised a loss after tax for the year of \$5,979 (2014 loss of \$2,246).

Loss per share

Basic loss per share from continuing operations decreased from (7.2) in 2014 to (18.7) US cents in 2015.

3. 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. During the year, the Group incurred a loss after tax of \$5,979 (2014: loss of \$2,246) and is in a net liability position as at 31 December 2015. Excluding the impairment charge and costs connected with a commercial dispute, the Group incurred a loss after tax of \$3,500 (2014: a profit after tax of \$386).

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets set out in the business plan and the successful completion of the capital raise which is underway at the date of this report.

The Directors have considered the financial performance of 2015, the strength of the sales pipeline, contracts in progress, the capital raise underway at the date of this report as outlined in the Strategic report and Note 23 to the Financial Statements, 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 or targets for the capital raise were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, 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 or capital raise targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and these material uncertainties 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.

Etherstack plc

Financial report for the year ended 31 December 2015

Directors' Report

4. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2015 (2014: \$nil).

5. Directors' indemnity insurance

The Company has arranged appropriate Directors' and Officers' insurance to indemnify the Directors against liability in respect of proceedings brought about by third parties. Such provisions remain in place at the date of this report.

6. Auditor

Grant Thornton UK LLP were appointed as auditors of Etherstack plc at the Annual General Meeting in June 2015 and Grant Thornton UK LLP will be proposed for re- appointment at the next Annual General Meeting.

7. Financial risk management objectives

The Group's financial risk management objectives and policies and exposures to risk are outlined in Note 16 to the financial statements.

8. Rounding of amounts and presentational Currency

Amounts in the Directors Report and the accompanying financial report have been rounded to the nearest thousand dollars, or in certain cases to the nearest dollar, unless otherwise expressly stated. The Group financial statements are presented in US Dollars ("\$\$") which is the Group's presentational currency.

On behalf of the Board



Paul Barnes FCCA
Director
30 March 2016

Remuneration Report

There is no regulatory requirement, other than Companies Act 2006 disclosure requirements, for Etherstack plc to disclose information on the remuneration arrangements in place for Directors and Executives of Etherstack plc, however the Remuneration Committee is committed to good corporate standards and has disclosed information considered relevant to the shareholders.

Remuneration policy for Executive Directors

The remuneration policy for Executive Directors has been designed to ensure Executive Directors receive appropriate incentive and reward given their performance, responsibility and experience. When assessing this, the Remuneration Committee seeks to ensure the policy aligns the interests of the Executive Directors with those of the shareholders.

The Company's remuneration policy for Executive Directors is to:

- ☐ Consider the individuals experience and the nature and complexity of their work in order to set a competitive salary that attracts and retains management of the highest quality;
- ☐ Link individual remuneration packages to the Group's long term performance through both bonus schemes and share option plans; and
- ☐ Provide post-retirement benefits through payment into pension schemes.

Remuneration package for Executive Directors

Executive Directors' remuneration packages are considered annually by the Remuneration Committee in line with Company policy, with a view to attracting, retaining and motivating Executive Directors of the calibre necessary to deliver the strategic milestones of the Board. Remuneration packages comprise a number of elements as follows:

Base salary

The base salary is reviewed annually. Within the review process, which is undertaken by the Remuneration Committee, regard is given to the profitability and on-going development of the Group and the contribution that each individual makes. Consideration is also given to the need to retain and motivate individuals, with reference made to available information on salary levels in comparable organisations as well as that of the wider workforce of the company. To assist in this process the Remuneration Committee draws on the findings of external salary surveys and undertakes its own research.

Annual performance incentive

The Executive Directors are eligible to receive, at the discretion of the Remuneration Committee, an annual bonus. The Remuneration Committee considers the implementation of bonus awards based upon both corporate and personal performance targets and measures, which align to the long term interests of shareholders.

Pensions and other benefits

The Group does not operate a Group pension scheme; instead individuals receive contributions to their private pension plans

Share options

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

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

Remuneration policy for Non-Executive Directors

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

Etherstack plc

Financial report for the year ended 31 December 2015

Remuneration Report

The remuneration of the Non-Executive Directors is determined by the Board as a whole, based on a review of current practices in other equivalent companies. The Non-Executive Directors each have service agreements that are reviewed annually by the Board.

Directors' remuneration (audited)

The Directors received the following remuneration:

2015

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,077	262,077
	<u>260,000</u>	<u>2,077</u>	<u>262,077</u>
Non-Executive Directors			
Peter Stephens	38,541	-	38,541
Paul Barnes - note (a)	44,705	-	44,705
Scott Minehane	32,794	3,115	35,909
	<u>116,040</u>	<u>3,115</u>	<u>119,155</u>
TOTAL	<u>376,040</u>	<u>5,192</u>	<u>381,232</u>

2014

	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	2,294	262,294
	<u>260,000</u>	<u>2,294</u>	<u>262,294</u>
Non-Executive Directors			
Peter Stephens	40,383	-	40,383
Paul Barnes - note (a)	56,160	-	56,160
Scott Minehane	40,608	3,807	44,415
	<u>137,151</u>	<u>3,807</u>	<u>140,958</u>
TOTAL	<u>397,151</u>	<u>6,101</u>	<u>403,252</u>

Note (a) –amounts set out in the above table include nil amounts paid to a related party in 2015 (2014 USD 9).

Etherstack plc

Financial report for the year ended 31 December 2015

Remuneration Report

Director's Share options

In addition, the following options have been issued to Directors.

Name of Director	Options granted	Total options vested as at 1 January 2015	Options vesting in the year	Total options vested as at 31 December 2015	Exercise price	Earliest date of exercise	Date of expiry
Non-Executive							
Scott Minehane	190,000	190,000	-	190,000	AUD\$1.16	25/6/2012	25/6/2017
	125,000	125,000	-	125,000	AUD \$0.80	23/6/2014	31/12/2018
Peter Stephens	125,000	125,000	-	125,000	GBP0.8	n/a	30/8/2016
	125,000	125,000	-	125,000	AUD \$0.80	23/6/2014	31/12/2018
Paul Barnes	125,000	125,000	-	125,000	AUD \$0.80	23/6/2014	31/12/2018

Directors' interests

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

Director	Number of ordinary Shares 31 December 2015	Number of ordinary Shares 31 December 2014	Number of options 31 December 2015	Number of options 31 December 2014	Number of convertible notes 31 December 2015	Number of convertible notes 31 December 2014
David Deacon	18,241,850	18,241,850	-	-	570,516	570,516
Peter Stephens	322,058	257,000	250,000	250,000	430,000	430,000
Paul Barnes	1,712,500	1,712,500	125,000	125,000	180,000	180,000
Scott Minehane	81,875	81,875	315,000	315,000	-	-

Etherstack plc

Financial report for the year ended 31 December 2015

Directors' Responsibilities Statement

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

- ☐ select suitable accounting policies and then apply them consistently;
- ☐ make judgements and accounting estimates that are reasonable and prudent;
- ☐ state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- ☐ prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The directors confirm that:

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

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

On behalf of the Board



Paul Barnes FCCA, Director

30 March 2016

Etherstack plc

Financial report for the year ended 31 December 2015

Independent auditor's report to the members of Etherstack plc

We have audited the financial statements of Etherstack plc for the year ended 31 December 2015 which comprise the Consolidated Statement of Comprehensive income, the Consolidated and Company Statement of Financial Position, Consolidated and Company Statement of Changes in Equity, Consolidated and Company Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- ☐ the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- ☐ the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- ☐ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- ☐ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's and the Parent Company's ability to continue as a going concern. The Group incurred a loss of \$5,979 during the year ended 31 December 2015 and is in a net liability position as at 31 December 2015. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Group's and the Parent 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.

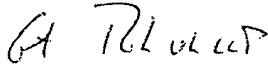
Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- ☐ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- ☐ the parent company financial statements are not in agreement with the accounting records and returns; or
- ☐ certain disclosures of directors' remuneration specified by law are not made; or
- ☐ we have not received all the information and explanations we require for our audit.



Paul Naylor
Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
31 March 2016

Etherstack plc

Financial report for the year ended 31 December 2015

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2015

		2015 \$'000	2014 \$'000
	Note		
Revenue	2,3	2,263	7,180
Cost of sales		(1,429)	(2,906)
Gross Profit		<u>834</u>	<u>4,274</u>
Other administrative expenses	4(a)	(4,901)	(5,183)
Foreign exchange gains/(losses)	4(a)	582	342
Impairment loss	4(b)	(2,094)	(2,172)
Debt subject to claim and legal fees	4(b)	(385)	(460)
Total administrative expenses		<u>(6,798)</u>	<u>(7,473)</u>
Group operating loss from continuing operations		(5,964)	(3,199)
Finance costs	7	(483)	(847)
		<u>(483)</u>	<u>(847)</u>
Loss before taxation		<u>(6,447)</u>	<u>(4,046)</u>
Income tax benefit	8	468	1,800
Loss after taxation for the year attributable to the equity holders of the parent		<u>(5,979)</u>	<u>(2,246)</u>
Other comprehensive income			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		19	(41)
Total comprehensive loss for the year attributable to the equity holders of the parent		<u><u>(5,960)</u></u>	<u><u>(2,287)</u></u>
Basic loss for the year (in cents)	20	(18.7)	(7.2)
Diluted loss for the year (in cents)	20	(18.7)	(7.2)

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

Etherstack plc

Financial report for the year ended 31 December 2015

Consolidated Statement of Financial Position

as at 31 December 2015

		2015 \$'000	2014 \$'000
Non-current assets	Note		
Intangible assets	9	6,287	9,622
Property, plant and equipment	11	73	137
Trade and other receivables	13	150	200
		<u>6,510</u>	<u>9,959</u>
Current assets			
Inventories	12	482	179
Trade and other receivables	13	1,591	2,506
Cash and cash equivalents		51	443
		<u>2,124</u>	<u>3,128</u>
TOTAL ASSETS		<u>8,634</u>	<u>13,087</u>
Non-current liabilities			
Borrowings	14(b)	-	1,959
Deferred tax liability	8(b)	128	169
Deferred revenue	15	180	230
		<u>308</u>	<u>2,358</u>
Current liabilities			
Trade and other payables	14(a)	4,322	3,654
Borrowings	14(b)	5,271	2,734
Current tax liabilities		145	150
Deferred revenue	15	558	253
		<u>10,604</u>	<u>9,149</u>
TOTAL LIABILITIES		<u>10,604</u>	<u>9,149</u>
NET ASSETS		<u>(1,970)</u>	<u>3,938</u>
Capital and reserves			
Share capital	17	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)
		<u>(1,970)</u>	<u>3,938</u>
TOTAL EQUITY		<u>(1,970)</u>	<u>3,938</u>

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors



Paul Barnes FCCA, Director

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

Etherstack plc
Financial report for the year ended 31 December 2015

Company Statement of Financial Position

as at 31 December 2015

	Note	2015 \$'000	2014 \$'000
Non-current Assets			
Investments in subsidiaries	10	2,660	6,068
Current Assets			
Trade and other receivables	13	3,899	4,536
Cash and cash equivalents		-	6
TOTAL ASSETS		6,559	10,610
Current Liabilities			
Trade and other payables	14(a)	275	255
Borrowings	14(b)	3,710	2,734
		3,985	2,989
Non-current Liabilities			
Borrowings	14(b)	-	1,358
TOTAL LIABILITIES		-	4,347
NET ASSETS		2,574	6,263
Capital and reserves			
Share capital	17	205	205
Share premium account		2,282	2,282
Merger reserve		6,742	6,742
Foreign currency reserve		100	100
Share-based payment reserve		413	361
Retained earnings		(7,168)	(3,427)
TOTAL EQUITY		2,574	6,263

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 30 March 2016.

Signed on behalf of the Board of Directors



Paul Barnes FCCA
Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

At 31 December 2015

	Share Capital	Share Premium Account	Merger Reserve	Share Based Payment Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2014	205	2,282	3,497	361	(1,742)	1,622	6,225
Share based payment charge	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(2,246)	(2,246)
Other comprehensive income	-	-	-	-	(41)	-	(41)
Total comprehensive income for the year	-	-	-	-	(41)	(2,246)	(2,287)
At 31 December 2014	205	2,282	3,497	361	(1,783)	(624)	3,938
Share based payment charge	-	-	-	52	-	-	52
Transactions with owners	-	-	-	-	-	-	-
Loss for the year	-	-	-	-	-	(5,979)	(5,979)
Other comprehensive income	-	-	-	-	19	-	19
Total comprehensive income for the year	-	-	-	-	19	(5,979)	(5,960)
At 31 December 2015	205	2,282	3,497	413	(1,764)	(6,603)	(1,970)

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Company Statement of Changes in Equity

At 31 December 2015

	Share capital \$'000	Share premium account \$'000	Merger Reserve \$'000	Share based payment reserve \$'000	Foreign currency reserve \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 January 2014	205	2,282	6,742	361	100	(1,106)	8,584
Share based payment charge	-	-	-	-	-	-	-
Transactions with owners	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(2,321)	(2,321)
Total comprehensive income for the year	-	-	-	-	-	(2,321)	(2,321)
At 31 December 2014	205	2,282	6,742	361	100	(3,427)	6,263
Share based payment charge	-	-	-	52	-	-	52
Transactions with owners	-	-	-	52	-	-	52
Loss for the period	-	-	-	-	-	(3,741)	(3,741)
Total comprehensive income for the year	-	-	-	-	-	(3,741)	(3,741)
Balance at 31 December 2015	205	2,282	6,742	413	100	(7,168)	2,574

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

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Etherstack plc

Financial report for the year ended 31 December 2015

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

		2015 \$'000	2014 \$'000
	Note		
Operating loss		(5,964)	(3,199)
Adjustments for:			
Depreciation of property, plant and equipment	11	60	83
Amortisation of intangible assets	9	2,723	2,254
Impairment loss		2,094	2,172
Equity settled share based transactions		52	-
Unrealised foreign exchange		(582)	(362)
Operating cash flows before movements in working capital		(1,617)	948
(Increase)/Decrease in inventories		(303)	117
Decrease in receivables		347	344
Increase in payables		346	375
Increase in income tax payable		5	5
Increase/(Decrease) in deferred revenue		255	(96)
Cash generated from operations		(967)	1,693
Income taxes received		1,067	836
Interest paid	7	(229)	(243)
Net cash flow from operating activities		(129)	2,286
Investing activities			
Purchases of intangible assets and development costs	9	(1,577)	(2,339)
Purchases of property, plant and equipment	11	(3)	(1)
Net cash flow used in investing activities		(1,580)	(2,340)
Financing activities			
Directors' loan advances		991	91
Directors' loan repayments		(27)	(159)
Proceeds on issue of convertible notes		411	546
Net cash flow from financing activities		1,375	478
Net (decrease)/increase in cash and cash equivalents		(334)	424
Effect of foreign exchange rate changes		(58)	(10)
Cash and cash equivalents at 1 January		443	29
Cash and cash equivalents at 31 December		51	443

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

Etherstack plc

Financial report for the year ended 31 December 2015

Company Statement of Cash Flows

For the year ended 31 December 2015

	2015 \$'000	2014 \$'000
Operating loss	(3,741)	(2,321)
Adjustments for:		
Unrealised foreign exchange	(193)	(119)
	3,408	1,243
Impairment loss	(526)	(1,197)
Cash before movements in working capital		
Decrease in payables	(302)	(117)
(Increase)/Decrease in receivables	(7)	5
Decrease in intercompany receivable	442	750
Net cash used in operating activities	(393)	(559)
Financing activities		
Net cash from financing activities		
Proceeds on issue of convertible notes (Note 14)	411	546
(Decrease)/increase in loans	(24)	19
Net cash from financing activities	387	565
Net (decrease)/increase in cash and cash equivalents	(6)	6
Cash and cash equivalents at 1 January	6	-
Effect of foreign exchange rate changes	-	-
Cash and cash equivalents at 31 December	-	6

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

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

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Note 1: Basis of Accounting

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Note 2: Revenue

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Section VIII Changes in accounting policy and disclosures

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

Section I: Basis of Accounting

1.1 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. During the year, the Group incurred a loss after tax of \$5,979 (2014: loss of \$2,246) and a net liability position as at 31 December 2015. Excluding the impairment charge and costs connected with a commercial dispute, the Group incurred a loss after tax of \$3,500 (2014: a profit after tax of \$386).

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets set out in the business plan and the successful completion of the capital raise which is underway at the date of this report.

The Directors have considered the financial performance of 2015, the strength of the sales pipeline, contracts in progress, the capital raise underway at the date of this report as outlined in the Strategic report and Note 23 to the Financial Statements, 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 or targets for the capital raise were not met then this would place a short term strain on cash reserves, although the Directors have identified certain mitigating actions that could be implemented to preserve cash if required. Additionally, 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 or capital raise targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and these material uncertainties 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.

1.2 Basis of Preparation

The Group financial statements are presented in US Dollar ("\$") which is the Group's presentational currency. The Group operates in international markets and the US Dollar provides the most comparable currency for peer companies.

All values are rounded to the nearest thousand dollars (\$000) except where otherwise indicated.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

1.3 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2015 were authorised for issue by the Board of Directors on 30 March 2016 and the Statement of Financial Position was signed on the Board's behalf by Mr Paul Barnes. Etherstack plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK share register cannot be traded on the ASX.

The Group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union as they apply to the financial statements of the Group for the year ended 31 December 2015 and applied in accordance with the Companies Act 2006.

Etherstack plc

Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

1.4 Basis of consolidation

The Group financial statements consolidate the financial statements of Etherstack plc and the entities it controls (its subsidiaries) drawn up to 31 December each year.

1.5 Foreign currency translation

US\$ has been adopted as the presentational currency in these financial statements. The Directors have considered the appropriate functional currency for each individual operation.

In preparing the financial statements of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

1.6 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

- ☐ Revenue recognition
- ☐ Capitalisation of development costs
- ☐ Impairment of intangible assets and investments

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

1.7 Other Accounting Policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.

Notes to the Consolidated and Company Financial Statements

Section II: Revenue and Expenses

2. Revenue

	2015	2014
An analysis of the Group's revenue is as follows:	\$'000	\$'000
Licence fees, design, development and supply of wireless communications technology	1,475	6,301
Support services	472	312
Royalties	123	385
Grant receipts – research and development incentives	193	182
	<u>2,263</u>	<u>7,180</u>

Revenue recognition accounting policies

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Where a contract consists of multiple performance obligations, revenue is assigned to each specific performance obligation and recognised in accordance with the policies outlined below.

Licence fees and revenue from the sale of goods

Sales of goods include technology access licences, manufactured equipment sales, and white labelled equipment sales.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- ☐ the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- ☐ the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- ☐ the amount of revenue can be measured reliably;
- ☐ it is probable that the economic benefits associated with the transaction will flow to the buyer; and
- ☐ the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Technology access licences revenues are recognised on the same basis as the sale of goods unless there are ongoing performance obligations associated with them. Revenue attributable to any ongoing performance obligation is recognised as the ongoing performance is fulfilled.

Rendering of services

Services include sales of system solutions and wireless technology design services.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion of the contract is determined based on the percentage of work that has been completed, measured through time and cost incurred and forecast to complete. At the balance sheet date, revenue is accrued or deferred as appropriate depending on the stage of contractual billings compared with the work performed to the balance sheet date.

Revenue from support contracts

Revenue from support contracts is recognised evenly over the period of the support contract on an accrual basis.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably). Royalty arrangements that are based on production, sales and other measures are recognised by reference to the underlying arrangement.

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

Interest income

Revenue is recognised as interest accrues using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Government grants

Government grants are recognised when it is reasonable to expect that the grants will be received and that all related conditions will be met, usually on submission of a valid claim for payment. Government grants in respect of capital expenditure are credited to a deferred income account and are released as income by equal annual amounts over the expected useful lives of the relevant assets. Grants of a revenue nature are credited to income so as to match them with the expenditure to which they relate.

Revenue recognition: Significant Judgements

The revenue and profit of fixed price contracts is recognised on a percentage of completion basis when the outcome of a contract can be estimated reliably. Management makes estimates of the cost incurred to date as a percentage of the total cost to be incurred. In 2015 no revenue has been recognised on this basis (2014: 9.3%) from projects in progress at year end. This involves forecasting future costs and requires estimates and judgements. These estimates are continually revised based on changes in the facts relating to each contract. Any changes in estimates are reflected in that period.

3. Segment information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the Group Chief Executive Officer, being the chief operating decision maker to allocate resources and to assess performance. The Group is operational in geographical locations including the United Kingdom, United States, Japan and Australia. The Group operates and reports as one business segment and is not analysed by management in either separate functions or geographical regions, as due to the nature of the work and complexity of the software, there is a large degree of collaboration and integration across the countries for any given project.

Geographical information

Revenue from external customers by region	2015 \$'000	2014 \$'000
Country/region of domicile		
North America	652	820
Australia and New Zealand	1,163	4,440
Japan	393	1,187
Other countries	55	733
	<u>2,263</u>	<u>7,180</u>
 Non-current assets by region		
Country/region of domicile		
United Kingdom	5,683	8,941
North America	6	13
Australia and New Zealand	821	1,005
	<u>6,510</u>	<u>9,959</u>

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

Revenues from a single customer amounting to more than 10% of Group revenue	2015	2014
	\$'000	\$'000
Customer A	949	3,730
Customer B	374	1,148
	<u>1,323</u>	<u>4,878</u>

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

Revenues by Product Group

Networks	1,605	5,124
Protocols	408	1,635
Radio Frequency	57	239
Other	193	182
	<u>2,263</u>	<u>7,180</u>

4. Group operating loss

(a) This is stated after charging/(crediting):

	2015	2014
	\$'000	\$'000
Depreciation of property, plant and machinery	60	83
Operating lease costs	534	640
Amortisation of intangible assets	2,723	2,254
Foreign exchange Gain	(582)	(342)
Inventory costs charged to costs of sales	125	483

(b) This is also stated after charging the following

Impairment adjustment against intellectual property assets (Refer to Note 9)	2,094	2,172
Debt subject to claim and legal fees	<u>385</u>	<u>460</u>

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements**5. Auditor's remuneration**

The Group paid the following amounts to its auditor in respect of the audit of the financial statements and for other services provided to the Group:

	2015	2014
	\$'000	\$'000
Grant Thornton UK LLP		
Audit of Etherstack plc	98	99
Non- Audit Services		
Half year review	33	40
Audit of subsidiaries	30	30
Taxation services	31	39
	192	208

6. Staff costs and Directors' emoluments

a) Staff costs	2015	2014
	\$'000	\$'000
Wages and salaries	3,201	4,557
Social security costs	219	358
Pension costs	186	238
	3,606	5,153

\$51 share-based payments included in wages and salaries for the current year (2014: Nil).

The average monthly number of employees during the year was made up as follows:

	2015	2014
	Number	Number
Executive Directors	1	1
Engineering	32	37
Management, sales & administrative	6	5
	39	43

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

	2015 \$'000	2014 \$'000
b) Directors' emoluments		
Emoluments	376	388
Amounts paid to third parties	-	9
	<u>376</u>	<u>397</u>
Pension costs	<u>5</u>	<u>6</u>

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

	2015 Number	2014 Number
The number of directors who are accruing benefits under:		
Defined contribution schemes	<u>2</u>	<u>2</u>

Employee benefits and retirement benefits - Accounting policies*Short-term employee benefits*

The cost of short-term employee benefits, (those expected to be settled wholly within 12 months after the service is rendered, such as paid annual leave and sick leave, bonuses and non-monetary benefits), are recognised in the period in which the service is rendered and are not discounted.

Long-term employee benefits

Liabilities for long service leave expected to be settled within the next 12 months are recognised in the provision for long service leave and are measured at the amounts expected to be paid when the liabilities are settled.

Liabilities expected to be settled more than 12 months from the balance date are also recognised in the provision for long service leave. The liabilities are discounted and consideration is given to periods of service.

Employee benefit on-costs

A liability is also carried for on-costs, including payroll tax and other insurances, in respect of provisions for certain employee benefits which attract these costs.

Payments to defined contribution retirement benefit schemes

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

7. Finance Costs

	2015 \$'000	2014 \$'000
Related party loans (see note 22)	113	87
Convertible Notes	362	501
Other interest	51	18
Revaluation of embedded derivative	(43)	241
	<u>483</u>	<u>847</u>

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

8. Taxation

	2015 \$'000	2014 \$'000
(a) Tax (credited)/charged in the statement of comprehensive income.		
<i>Current income tax:</i>		
UK corporation tax and income tax	455	1,764
Foreign tax	13	36
Current income tax benefit	468	1,800
Amounts (over)/under provided in previous years	-	-
Tax income/(expense) in the statement of comprehensive income	468	1,800

	2015 \$'000	2014 \$'000
<i>The tax income/(expense) in the statement of comprehensive income is disclosed as follows:</i>		
Income tax income/(expense) on continuing operations	468	1,800

Reconciliation of the total tax (credit)/charge

The tax expense in the statement of comprehensive income for the year is higher than the standard rate of corporation tax in the UK of 20% (2014: 21.5%). The differences are reconciled below:

	2015 \$'000	2014 \$'000
Loss before income tax	(6,447)	(4,046)
Tax at the UK corporation tax rate of 20% (2014: 21.5%)	(1,289)	(870)
Expenses not deductible for tax purposes	10	43
Carry forward/(utilisation) of tax losses	66	231
Losses surrendered	1,733	2,434
Difference in overseas tax rates	(12)	44
Deferred tax liability	(40)	(82)
Total tax benefit/(expense) reported in the statement of comprehensive income	468	1,800

	1 January 2015	Recognised in Profit & Loss	31 December 2015
(b) Deferred tax liabilities/(assets)			
Deferred tax liability re customer contract intangible	169	(41)	128
Deferred tax asset re Employee benefit entitlements	(61)	(6)	(67)
	108	(47)	61

Notes to the Consolidated and Company Financial Statements**Accounting policies**

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

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

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

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

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

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

The Group is subject to income and other tax in the UK, USA, Australia, Japan and other countries. Significant judgement is required in determining the provision for income and other taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax provisions in the period in which such determination is made. Deferred tax assets are recognised relating to tax losses to the extent that it is probable future taxable profits will arise in that jurisdiction.

Unrecognised tax losses

The Group has tax losses which arose in the United Kingdom of \$4,943 (2014 \$2,599) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of losses carried forward as it is not considered probable that these will reverse in the near future. No deferred tax liability is recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences.

Change in Corporation Tax rate

The UK corporation tax rate will be 19% from 1 April 2017 and is expected to reduce to 17% from 1 April 2020 based on the UK budget.

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Financial report for the year ended 31 December 2015

Notes to the Consolidated and Company Financial Statements

SECTION III: ASSETS

9. Intangible assets (Group)

	Capitalised development costs \$000	Engineering software \$000	Customer contract intangible \$000	Goodwill \$000	Total \$000
Cost					
At 1 January 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					
1 January 2014	2,163	388	130	-	2,681
Charge for the year	1,957	98	199	-	2,254
Impairment loss	2,153	19	-	-	2,172
Exchange differences	-	-	-	-	-
At 31 December 2014	6,273	505	329	-	7,107
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
Exchange differences	-	-	-	-	-
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

Notes to the Consolidated and Company Financial Statements

Intangible assets accounting policies

Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets, Acquired customer relationship assets, goodwill and engineering software.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's intellectual property development is recognised only if all of the following conditions are met:

- ☐ an asset is created that can be identified (such as software and new processes);
- ☐ the technical feasibility of completing the asset so that it will be available for use or sale;
- ☐ the Group intends to complete the asset and use or sell it;
- ☐ the Group has available adequate technical, financial and other resources to complete the development and to use or sell the asset;
- ☐ it is probable that the asset created will generate future economic benefits; and
- ☐ the development cost of the asset can be measured reliably.

These criteria are assessed on a project by project basis from the outset and continuing through to project completion. This assessment requires management judgement to determine whether the criteria are met, which is often reliant on expectations of future events.

Internally-generated intangible assets have a finite useful life, and are amortised on a straight-line basis over that useful life, determined as the shorter of 6 years or the estimated delivery model. Amortisation of the asset begins when development is complete and the asset is available for use, such that it can be deployed to customers. During the period of development, the asset is tested for impairment annually.

Acquired Customer relationships

Intangible assets classified as customer relationships are recognised when acquired as part of a business combination and are measured initially at fair value. Customer relationships are amortised based on the expected pattern of benefits to be derived from the customer relationships. For the purpose of impairment testing, Acquired Customer Relationship assets are allocated to a cash-generating unit.

Business combinations and goodwill

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair value of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expensed as incurred. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill is carried at cost less accumulated impairment losses.

Engineering software

Purchased engineering software (including licences) is stated at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over 5 years from the date the software is installed. The asset is tested for impairment where there are indicators of impairment.

Impairment Testing of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset

Notes to the Consolidated and Company Financial Statements

belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Except where there is an impairment of Goodwill, where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. Impairments of goodwill are not reversed.

Intangible Assets: Significant judgements***Capitalisation and recoverability of Development costs***

During the year, the Group recognised internally-generated intangible assets totalling \$1,577 (2014 \$2,339). Significant judgement is required in assessing whether development costs met the conditions for capitalisation as set out in the Group's accounting policy.

Impairment Testing

The Group performed its impairment test as at reporting date. The Group considers the relationship between its market capitalisation and its book value, and the intentions to proceed with planned and in progress developments amongst other factors when reviewing for indicators of impairment. The Board of Directors and Management have reviewed the intellectual property portfolio and goodwill in the context of the reshaped business following a significant decline in revenues and a consequential loss in 2013 and 2015, and the Group's 2014 and 2015 focus on a smaller number of higher return developments.

The outcome of this review is a \$2,094 impairment adjustment comprising \$1,741 which has been recognised against Capitalised development costs assets where the assets no longer meet the criteria for continued recognition and \$353 against goodwill. The impairment adjustment was recognised as an expense in the 31 December 2015 financial statements.

Following the impairment of assets which no longer satisfy criteria for continued recognition, the remaining value of intangible assets in the CGU is reviewed for impairment. The recoverable amount of the CGU has been determined based on a value in use calculation using cashflow projections from detailed financial forecasts prepared by management extrapolated to cover a 6 year period. The outcome of this review was that no further impairment adjustment was required.

The key assumptions are:

- ☐ Growth rate of nil is assumed in the financial models. While revenues have not grown in the current year, the expectation is for positive growth over the medium and longer term. Noting that revenues are volatile for the company and throughout the industry and in the interests of producing a conservative model an assumption of no growth has been made and cashflows beyond 6 years have been excluded.
- ☐ Constant gross margins have been assumed. No efficiency or productivity improvements have been built into the projections.
- ☐ Pre-tax discount rate of 20%.

Management has considered the sensitivity of the value in use calculation to changes in assumptions in particular changes to the discount rate. A 1% increase in the assumed discount rate creates a \$246 decrease in the value in use. As the impairment loss was based on selected developments projects and then the book value assessed with reference to a value in use calculation, there is no additional impairment required by a 1% change in the assumed discount rate.

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The review of recoverability encompasses consideration of the expected cash flows and margins to be generated by these assets and the expected period over which future benefits are likely to be derived. The outcome of the review supports the expectation that future revenues and profits will be derived from the intellectual property assets developed by the Group.

Expected revenues and margins generated by these assets will continue to be closely monitored, and adjustments made in future periods if future market activity indicates that such adjustments are appropriate.

10. Subsidiary undertakings	Company 2015 \$000	Company 2014 \$000
Subsidiary undertakings at cost	7,311	7,311
Less impairment provision	(4,651)	(1,243)
	2,660	6,068

The Company's investments at 31 December 2015 in the share capital of other companies comprises:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
Etherstack London Limited (formerly Etherstack Limited)	100%	Ordinary	England and Wales
Indian Pacific Nederland BV *	100%	Ordinary	Netherlands
Etherstack Inc. *	100%	Ordinary	USA
Etherstack Pty Limited *	100%	Ordinary	Australia
Auria Wireless Pty Limited *	100%	Ordinary	Australia
Etherstack Japan Limited *	100%	Ordinary	Japan
Etherstack Pte Limited *	100%	Ordinary	Singapore

* These companies are owned via another Group entity, with Etherstack plc the ultimate parent company of the Group.

All of the companies in the Group develop and sell wireless software communications products.

Subsidiary accounting policies:

Investments in subsidiaries

Investments are carried at their historic cost, and are reviewed annually for impairment. Any impairment losses are booked in the year that they arise.

Subsidiaries are consolidated from the date of their acquisition. The financial statements of subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting year as the parent company and are based on consistent accounting policies. All intra-Group balances and transactions, including unrealised profits arising from them, are eliminated in full.

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Significant judgement: Impairment adjustment

As at 31 December 2015 an impairment adjustment of \$4,651 has been recognised. Etherstack plc is a holding company and the listed vehicle within the group. Operating subsidiary companies have incurred losses requiring Etherstack plc as the parent company to review the carrying value of the investments in these operating subsidiaries. The outcome of this review is an impairment adjustment of \$4,651 which reduces the carrying amount of the investment to the amount supported by the CGU analysis prepared for assessing the recoverable amount of the intangible assets.

11. Property, plant and equipment

Group	Leasehold property improvements \$'000	Furniture and equipment \$'000	Computer equipment \$'000	Total \$'000
Cost				
At 1 January 2014	243	346	726	1,315
Additions	-	1	-	1
Exchange differences	-	-	-	-
At 31 December 2014	243	347	726	1,316
Additions	-	-	3	3
Exchange differences	-	-	-	-
At 31 December 2015	243	347	729	1,319
Accumulated depreciation				
At 1 January 2014	150	217	713	1,080
Charge for the year	25	43	15	83
Exchange differences	9	15	(8)	16
At 31 December 2014	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

Accounting policy:

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss. Depreciation is recognised so as to write-off the cost of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	over 5 years (or the length of the lease, whichever is shorter)
Computer equipment	over 3 years
Furniture and equipment	over 5 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Notes to the Consolidated and Company Financial Statements

12. Inventories

	2015 \$'000	2014 \$'000
Work in Progress	482	179

Inventory accounting policies

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

13. Trade and other receivables

	Group		Company	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Current				
Trade debtors	422	145	4	-
Accrued Income from contracts in progress	94	765	-	-
Amounts receivable from Group undertakings	-	-	3,881	4,525
Other debtors	609	521	14	11
Research and development incentives	466	1,075	-	-
	<u>1,591</u>	<u>2,506</u>	<u>3,899</u>	<u>4,536</u>
Non-current				
Accrued income from contracts in progress	<u>150</u>	<u>200</u>	<u>-</u>	<u>-</u>

The movements in the allowances for losses are as follows:

	Group		Company	
	2015 \$'000	2014 \$'000	2015 \$'000	2014 \$'000
Balance 1 January	-	(499)	-	-
Amounts written off (uncollectable)	-	499	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Ageing of past due but not impaired receivables

	2015 \$'000	2014 \$'000
30-60 days	30	-
60-90 days	58	-
90-120 days	18	-
Total	<u>106</u>	<u>-</u>

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

Notes to the Consolidated and Company Financial Statements

Accounting policy

Accrued income from contracts in progress represents unbilled fees and licence income derived from projects and contracts in progress at the end of the period.

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

The average credit period taken on sales of goods is 68 days (2014: 27). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate, an allowance for doubtful debts of 100% against certain receivables over 180 days since historical experience has been that receivables that are past due beyond 180 days tend not to be recoverable.

Due to the nature of the Group's business, potential customers tend to be well-funded international companies of sound credit status. Before accepting a new customer, the Group assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project. There are 5 (2014: 4) customers who each represent more than 5 per cent of the total balance of trade receivables.

Trade receivables disclosed above include amounts which are past due at the reporting date, but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about customer default rates management consider the credit quality of trade receivables that are not past due or impaired to be good.

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SECTION IV: LIABILITIES

14. Financial Liabilities

	Group		Company	
	2015	2014	2015	2014
(a) Trade and other payables				
Current	\$'000	\$'000	\$'000	\$'000
Trade payables and accruals	1,902	1,645	118	139
Other payables	1,376	882	157	116
Other taxes and social security costs	1,044	1,127	-	-
	<u>4,322</u>	<u>3,654</u>	<u>275</u>	<u>255</u>
(b) Borrowings				
Current				
Convertible notes at amortised cost	3,095	2,734	3,095	2,734
Embedded derivative at fair value	48	-	48	-
Other loans	2,128	-	567	-
	<u>5,271</u>	<u>2,734</u>	<u>3,710</u>	<u>2,734</u>
Non-current				
Convertible notes at amortised cost	-	702	-	702
Embedded derivative at fair value	-	91	-	91
Other loans	-	1,166	-	565
	<u>-</u>	<u>1,959</u>	<u>-</u>	<u>1,358</u>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 79 days (2014: 53). For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates. The Group has financial risk management policies in place to ensure that all payables, unless they are subject to dispute, are paid within the pre-agreed credit terms.

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

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

Convertible notes

At 31 December 2015, there were 3,860,000 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.

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 day's 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.

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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 2016 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. On 1 December 2014 the company repaid 180,000 convertible notes to an existing noteholder.

In July 2014 the Company issued 540,000 convertible notes which formed tranche 3. Subscribers to the issue included Paul Barnes and Peter Stephens and other existing shareholders. The convertible notes can only be converted if shareholder approval for conversion is obtained by the company, which approval it will seek at the next Annual General Meeting. 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.

Other loans

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

15. Deferred Revenue

	Group	
	2015	2014
	\$'000	\$'000
At 1 January	483	579
Deferred during the year	815	311
Released to the income statement during the year	(560)	(407)
	<hr/>	<hr/>
At 31 December	738	483
	<hr/>	<hr/>
Current	558	253
	<hr/>	<hr/>
Non-current	180	230
	<hr/>	<hr/>

16. Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially recognised and subsequently measured based on their classification at either amortised cost or fair value through the profit and loss.

Loans and receivables

Cash, trade and receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. The Group's loans and receivables comprise of trade and other receivables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less any provisions for impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and fixed-term deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash. These are initially and subsequently recorded at fair value.

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Convertible notes

Convertible notes are denominated in Australian dollars and include an equity conversion right. As a consequence of the conversion rights there is an embedded derivative. The embedded derivative is recorded separately and measured at fair value through profit and loss while the Convertible notes are recognised as a financial liability of the Group and measured at amortised cost.

Other financial liabilities

Other financial liabilities, including trade and other payables, are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Group has funded itself through share issues, convertible note issues and cash generation from the business. The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained profits as disclosed in notes 17 and 18 and the Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements

Fair Value Hierarchy

There is one financial liability measured at fair value. This represents the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is \$48 (2014 \$91) and the valuation is categorised as Level 3 – Valuation technique.

Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Loans and receivables measured at amortised cost				
Cash and cash equivalents	51	443	-	6
Trade and other receivables	666	1,110	3,899	4,536
	717	1,553	3,899	4,542
Financial liabilities at amortised cost				
Convertible note at amortised cost	3,095	3,436	3,095	3,436
Current borrowings at amortised cost	2,128	1,166	567	565
Trade and other payables	3,278	2,527	275	255
	8,501	7,129	3,937	4,256

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

Embedded derivative at FVTPL	48	91	48	91
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The table below summarises the maturity profile of the Group's and the Company's financial liabilities based on undiscounted payments:

Group: Year ended 31 December 2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade creditors	-	1,902	-	-	-	1,902
Related party loans	-	-	2,128	-	-	2,128
Other creditors	-	1,376	-	-	-	1,376
Convertible notes	-	-	3,095	-	-	3,095
	-	3,278	5,223	-	-	8,501

Group: Year ended 31 December 2014	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 Years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade creditors	-	1,645	-	-	-	1,645
Related party loans	-	-	-	1,166	-	1,166
Other creditors	-	882	-	-	-	882
Convertible notes	-	-	2,734	702	-	3,436
	-	2,527	2,734	1,868	-	7,129

Company: Year ended 31 December 2015	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade creditors	-	275	-	-	-	275
Related party loans	-	-	567	-	-	567
Convertible notes	-	-	3,095	-	-	3,095
	-	275	3,662	-	-	3,937

Company: Year ended 31 December 2014	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade creditors	-	255	-	-	-	255
Related party loans	-	-	-	565	-	565
Convertible notes	-	66	2,931	702	-	3,699
	-	321	2,931	1,267	-	4,519

Notes to the Consolidated and Company Financial Statements**Group and Company Financial risk management objectives**

The Group's management monitors and manages the financial risks relating to the operations of the Group through internal risk evaluations which analyse exposure by degree and magnitude of risks. These risks include market risk, including currency risk, credit risk and liquidity risk.

The Group may use derivative financial instruments to hedge these risk exposures although no derivatives were used in 2015 (2014 \$nil). The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

The Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters.

A sensitivity analysis has been prepared for foreign currency exchange rates in the foreign currency risk section.

Credit risk management

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure is continuously monitored.

The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at 31 December, as summarised below:

	2015 \$'000	2014 \$'000
Trade and other receivables - Current (note 13)	1,591	2,506
- Non-current (note 13)	150	200
Cash and cash equivalents	51	443
	<u>1,792</u>	<u>3,149</u>

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking (cash) facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Foreign currency risk

The Group operates in the United Kingdom, continental Europe, North America, Australia, Japan and Singapore, and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The

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Group and Company also has trade and other receivables and trade and other payables that are denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. No hedging transactions were entered into in 2015 (2014 \$nil).

The Group's and Company's currency exposure is as follows:

Foreign currency sensitivity

The following tables demonstrate the sensitivity to a reasonably possible change in the US dollar and Pound sterling, Australian dollar and Japanese Yen exchange rates, with all other variables held constant for the Group and sensitivity to a reasonably possible change in the Australian dollar with all other variables held constant for the Company. The impact on the Group's and the Company's profit before tax is due to changes in the fair value of monetary assets and liabilities. The Group's and Company's exposure to foreign currency changes for all other currencies is not considered material.

	Change in GBP rate	Group Effect on (loss)/profit before tax \$'000	Effect on equity \$'000	Company Effect on (loss)/profit before tax \$'000	Effect on equity \$'000
2015	+10%	(246)	(200)	(17)	(17)
	-10%	246	200	17	17

2014	+10%	(373)	(370)	25	(370)
	-10%	373	370	(25)	370

	Change in AUD rate	Effect on (loss)/profit before tax \$'000	Effect on equity \$'000	Effect on (loss)/profit before tax \$'000	Effect on equity \$'000
2015	+10%	(106)	(166)	(29)	(29)
	-10%	106	166	29	29

2014	+10%	74	101	(70)	101
	-10%	(74)	(101)	70	(101)

	Change in JPY rate	Effect on (loss)/profit before tax \$'000	Effect on equity \$'000
2015	+10%	3	41
	-10%	89	(41)
2014	+10%	(89)	39
	-10%	89	(39)

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Notes to the Consolidated and Company Financial Statements**SECTION V: SHARE CAPITAL****17. Called up share capital**

	Company	
	2015 Number	2014 Number
Authorised		
Ordinary shares of 0.4p each	62,500,000	62,500,000
	2015	2014
	\$'000	\$'000
Called up, allotted and fully paid		
31,980,784 ordinary shares of 0.4p each	205	205

There were no share issues in 2015.

The Company has one class of ordinary shares which carry no right to fixed income. Each ordinary share carries the right to a vote at Shareholder meetings, rights to dividends and a right to participate in any surplus on the winding up of the Company.

18. Reserves

Details of movements in reserves are included in the Consolidated and Company Statements of changes in equity respectively.

Merger Reserve

A merger reserve was originally created upon the acquisition of a commonly controlled entity in 2006 and increased as part of the Group reorganisation on 19 March 2012.

Share Premium Reserve

The share premium reserve is used to record the premium of the issue price for new issues of shares over the par value of those shares. The share premium account also records the costs directly attributable to the issue of new shares.

Foreign currency translation reserve

The Group foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the Group's presentation currency. The company foreign currency translation reserve was created as part of the Group re organisation on 19 March 2012.

19. Share based payments

The Group has an equity settled share option scheme. Options may be granted where vesting is tied to meeting or exceeding defined performance criteria. The exercise date of the options depends upon the date the performance criteria are met.

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Details of the share options outstanding during the year are as follows:

	Number of share options	2015 Weighted average exercise price (AUD)	Number of share options	2014 Weighted average exercise price (AUD)
Outstanding at beginning of year	1,817,000	0.98	692,000	1.26
Granted during the year	-		1,125,000	0.80
Forfeited during the year	(281,250)		-	-
Exercised during the year	-		-	-
Outstanding at the end of the year	<u>1,535,750</u>	0.90	<u>1,817,000</u>	0.98
Exercisable at the end of the year	<u>1,345,750</u>	0.90	<u>1,627,000</u>	0.98

During the year, nil (2014 Nil) options were exercised.

There were 1,125,000 options issued in 2014.

- On 29 July 2014, 375,000 options were issued. These options were fully vested, have an exercise price of AUD\$0.80 and expire on 31 December 2018.
- On 19 December 2014 365,000 options were issued. These options were fully vested, have an exercise price of AUD\$0.80 and expire on 31 December 2018. Additionally, on 19 December 2014, 385,000 options were issued. 50% of these options vest on 31 August 2015 and the remaining 50% on 31 August 2016. The options have an exercise price of AUD\$0.80 and expire on 31 December 2018.

The options outstanding at 31 December 2015 had a weighted average exercise price of AUD 0.90 (2014 AUD 0.98), and a weighted average remaining contractual life of 3 years (2014: 3.2 years).

The inputs into the Black-Scholes option pricing model are as follows:

	2015	2014
Weighted average share price	N/A	AUD\$0.37
Weighted average exercise price	N/A	AUD\$0.80
Expected volatility	N/A	84%
Expected life	N/A	4.1 years
Risk-free rate	N/A	4%
Expected dividend yields	N/A	0%

Expected volatility was determined by calculating the historical volatility of the Group's share price. The expected life used in the model has been adjusted, based on Management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

The Group recognized total expenses of \$52 (2014 \$nil) relating to equity-settled share-based payment transactions.

Share-based payments accounting policy

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non market-based vesting conditions.

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The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

20. Loss per share

Basic earnings per share amounts are calculated by dividing profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the profit attributable to ordinary equity holders of the parent (before deducting interest on the convertible shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2015		2014	
Reconciliation of earnings used in the calculation of earnings per share	Basic \$'000	Diluted \$'000	Basic \$'000	Diluted \$'000
Net loss attributable to equity holders of the parent for basic earnings	(5,979)	(5,979)	(2,246)	(2,246)
Net loss attributable to equity holders of the parent adjusted for the effect of dilution	(5,979)	(5,979)	(2,246)	(2,246)
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	31,981	31,981	31,981	31,981
Options*	-	-	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	31,981	31,981	31,981	31,981
Loss per share (cents)	(18.7)	(18.7)	(7.2)	(7.2)

* options have been excluded from the calculation of diluted earnings per share because they are anti-dilutive for 2015 and 2014.

There are no ordinary share transactions or potential ordinary share transactions occurring after the reporting period but before the financial statements are authorized for issue that would significantly change the ordinary shares or potential ordinary shares outstanding if those transactions had occurred before the end of the reporting period. As outlined in Note 23, there is an entitlements issue currently in progress that will be completed after the date the financial statements are authorized for issue. The potential increase in ordinary shares, as a consequence of this issue, is outlined in Note 23.

Notes to the Consolidated and Company Financial Statements

21. Operating lease commitments

	2015 Land and buildings \$'000	2014 Land and buildings \$'000
Minimum lease payments under operating leases Recognised as an expense in the year	534	640

At 31 December 2015 the Group had total commitments under non-cancellable operating leases as set out below:

	2015 Land and buildings \$'000	2014 Land and buildings \$'000
Operating lease payments		
Within 1 year	202	310
In the second to fifth years inclusive	30	426
After five years	-	-
	<u>232</u>	<u>736</u>

Operating lease accounting policy

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease, except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

22. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in these financial statements.

Remuneration of key management personnel

The remuneration of the Directors, plus the Chief Operating Officer and Chief Financial Officer, who are the key management personnel of the Group and the Company, is set out below in aggregate for each of the categories specified in IAS 24 *Related Party Disclosures*.

	2015 \$'000	2014 \$'000
Short-term employee benefits	722	776
Share based payments charge	7	4
Post-employment benefits (defined contribution schemes)	38	42
	<u>767</u>	<u>822</u>

Etherstack plc

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Notes to the Consolidated and Company Financial Statements

Loans to/ from related parties

The Company has provided its subsidiaries with short-term loans at nil interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of \$3,881 (2014 \$4,525) was receivable. From time to time, operating expenses of Etherstack plc are settled by Group companies and the cost passed back to Etherstack plc. During the year \$333 (2014 \$1,078) of operating expenses were paid for by Group companies.

Directors and Director-related entities

Mr. David Deacon, a Director of the Company, is owed \$1,032 by the Group at 31 December 2015 (2014: \$951). During the year, advances of \$65 were made to the company, interest of \$43 was accrued and repayments of \$27 were made. This loan is unsecured, bears interest at arms-length rates and is not due for repayment before 30 June 2016. At its option, the Company may make repayments before 30 June 2016.

In addition, an entity related to Mr. Deacon had advanced \$531 to the Group and at 2014 year end this totaled to \$565. In 2015 interest of \$29 was accrued on this loan and \$594 was outstanding at year end (2014: \$565). This loan is unsecured, bears interest at arm's length rates and is repayable in November 2016.

During 2015, Mr. Peter Stephens and Mr. Paul Barnes advanced \$845 and \$119 respectively. These amounts were outstanding at year end. Interest earned was \$38 and \$3 respectively. These loans are unsecured and bear interest at arm's length rates.

At 31 December 2015, the following amounts of non-executive director service fees were payable to Directors of the company: Peter Stephens \$116 (2014: \$78), Paul Barnes \$130 (2014: \$87) and Scott Minehane \$15 (2014: \$27). 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. At year end \$10 (2014 \$10) was owing to Beach Street Limited.

Noon and Co is a Director related entity as Peter Stephens is a Director and shareholder. At year end \$12 (2014 \$12) was owing to Noon and Co.

Section VI: Post Balance Date events

23. Entitlements Issue

The Company is currently undertaking 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 offer whereby shareholders and CDI holders will be offered rights to acquire 3 new CHESS Depository Interests (CDIs) issued over a fully paid ordinary share in the capital of the Company (Share) for every 1 Share or CDI held (Offer). The rights will entitle the holder to acquire CDIs at an issue price of AUD 10 cents. Full details of the raise are set out in the Prospectus.

If fully subscribed the capital raise will increase the issued share capital of the Company from 31,980,784 Shares to 127,923,136 Shares and increase the Company's shareholder funds by approximately \$7.195 million (AUD\$9.594 million) before costs of the issue.

The 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.

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Notes to the Consolidated and Company Financial Statements

	Actual 31 December 2015	Pro Forma 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	5,797
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)
Total equity	(1,970)	4,938

Notes to the Consolidated and Company Financial Statements

Section VII: Parent Company income statement

24. Parent company income statement

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company is not presented as part of the financial statements. The parent company's loss for the financial year was \$3,741 (2014 \$2,321).

Section VIII Changes in accounting policy and disclosures

25. Changes in accounting policy and disclosures

The Group has adopted the following amendments to IFRS adopted by European Union which are relevant to and effective for the Group's financial statements for the annual period beginning 1 January 2015.

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments clarify that an entity is required to disclose the recoverable amount of an asset (or cash generating unit) whenever an impairment loss has been recognised or reversed in the period. In addition, they introduce several new disclosures required to be made when the recoverable amount of impaired assets is based on fair value less costs of disposal, including:

- ☐ additional information about fair value measurement including the applicable level of the fair value hierarchy, and a description of any valuation techniques used and key assumptions made,
- ☐ the discount rates used if fair value less costs of disposal is measured using a present value technique.

Standards and interpretations issued but not yet applied

New standards and interpretations currently in issue but not effective, based on EU mandatory effective dates, for accounting periods commencing on 1 January 2015 are:

- ☐ IFRS 9 Financial Instruments (IASB effective date 1 January 2018)
- ☐ IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018)
- ☐ Clarification of Acceptable Methods of Depreciation and Amortisation – Amendments to IAS 16 and IAS 38 (I effective date 1 January 2016)
- ☐ Annual Improvements to IFRSs 2010-2012 Cycle (effective date 1 February 2015)
- ☐ Annual Improvements to IFRSs 2012-2014 Cycle (effective 1 January 2016)
- ☐ Amendments to IAS 27: Equity Method in Separate Financial Statements (effective 1 January 2016)
- ☐ Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception (effective 1 January 2016)
- ☐ Disclosure Initiative: Amendments to IAS 1 Presentation of Financial Statements (effective 1 January 2016)
- ☐ IFRS 16 Leases (IASB effective date 1 January 2019)

Based on its current business and accounting policies, the Group does not expect these standards, amendments or interpretations to have a material impact on the consolidated financial statements when they become effective. The impact of IFRS 9, IFRS 15 and IFRS 16 is currently being evaluated. The Group does not intend to apply any of these pronouncements early.

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ASX Additional information

Shareholdings

The issued capital of the Company as at 24 March 2016 is 31,980,784 fully paid ordinary shares.

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

Ordinary Shares

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	6	2,992	0.01%
1,001 – 10,000	361	619,363	1.94%
10,001 – 100,000	34	1,246,204	3.90%
100,001 – 1,000,000	19	7,158,881	22.38%
1,000,001 and over	4	22,953,344	71.77%
Total	424	31,980,784	100.0

As at 24 March 2016 there were 233 shareholders (with a total of 287,562 shares) holding less than a marketable parcel under the ASX Listing Rules. The ASX Listing Rules define a marketable parcel of shares as "a parcel of not less than AU\$500".

Substantial shareholders as at 24 March 2016

As at 24 March 2016 there were three shareholders who held a substantial shareholding within the meaning of the Corporations Act. A person has a substantial holding if the total votes that they or their associates have relevant interests in is five per cent or more of the total number of votes.

	No of shares	% of issued capital
Mr David Deacon	18,241,850	57.04
Giga Palace Limited	1,909,994	5.97
Mr Paul Barnes	1,712,500	5.35
	21,864,344	68.36

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ASX Additional information

Top 20 shareholders as at 24 March 2016

		No of shares	% of issued capital
1	MR DAVID DEACON	18,241,850	57.04%
2	GIGA PALACE LIMITED	1,909,994	5.97%
3	MR PAUL BARNES	1,712,500	5.35%
4	MR JEREMY JON DAVIES	1,089,000	3.41%
5	IN-Q-TEL INC	998,675	3.12%
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	996,146	3.11%
7	RT HON JAMES NETHERTHORPE	787,500	2.46%
8	MR ADAM RICHARDS	563,500	1.76%
9	MR EVAN SCOTT	562,500	1.76%
10	MR PETER SQUIRES <P&MSFT A/C>	561,250	1.75%
11	CITICORP NOMINEES PTY LIMITED	481,250	1.50%
12	IN-Q-TEL EMPLOYEE FUND LLC	326,800	1.02%
13	RIDGEPORT HOLDINGS PTY LTD	300,010	0.94%
14	MR BILL EASON	262,500	0.82%
15	MR PAUL RICHARDS	183,750	0.57%
16	J P MORGAN NOMINEES AUSTRALIA LIMITED	175,000	0.55%
17	MR ANDREW SCOTT	175,000	0.55%
18	SMITH & WILLIAMSON NOMINEES LIMITED	165,000	0.52%
19	ANNA SWANN	135,000	0.42%
20	ARTPRECIATION PTY LTD <THE PANG SUPER FUND A/C>	125,000	0.39%
	TOTAL	29,752,225	93.03

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ASX Additional information

Limitations on the Acquisition of Securities

Etherstack plc is subject to the City Code on Takeovers and Mergers (the Code) as a public company incorporated in England and Wales.

Subject to certain exceptions and limitations, a mandatory offer may be required to be made under Rule 9 of the Code broadly where:

- (i) a bidder and any persons acting in concert with it acquire shares carrying 30% or more of the voting rights of a target company; or
- (ii) if a bidder, together with any concert parties, increases its holding where its holding is not less than 30% but not more than 50% of the voting rights.

Rule 9 requires a mandatory offer to be made in cash and at the highest price paid by the bidder (or any persons acting in concert with it) for any interest in shares of the relevant class during the 12 months prior to the announcement of the offer.

Where a bidder, within 4 months of making its offer, obtains acceptances of at least 90% of the shares subject to the takeover offer (which excludes any shares held by it or its concert parties), it can require the remaining shareholders who have not accepted the offer to sell their shares on the terms of the offer. The Corporations Act governs a takeover, and contains a general rule that a person must not acquire a 'relevant interest' in issued voting shares of a company, if because of the transaction, a person's voting power in the company increases from 20% or below to more than 20%, or increases from a starting point which is above 20% but less than 90%.

Certain exceptions apply, such as acquisitions of relevant interests in voting shares made under takeover bids or made with shareholder approval, or creeping acquisitions of not more than 3% in a 6 month period.

Australian law similarly permits compulsory acquisition by persons holding a 90% interest in the relevant securities.

Etherstack plc is not subject to the provisions of the Corporations Act relating to changes in control and takeover of public companies.