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19 March 2021

ASX Market Announcements Office
ASX Limited
20 Bridge Street
SYDNEY NSW 2000

31 December 2020 financial statements of Etherstack plc (ESK)

The attached 31 December 2020 financial statements are authorised for release to the ASX.

Authorised by

David Carter

David Carter
Chief Financial Officer & Company Secretary

etherstack
wireless innovation

Etherstack plc AND CONTROLLED ENTITIES

COMPANY REGISTRATION NUMBER 7951056

ARBN 156 640 532

FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

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

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

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2020 Highlights

(all amounts are in USD $000 unless otherwise stated)

- **Strong Positive Cashflow:** Net operating cash inflow of US $1.7 million in 2020 following strong operating cash inflow of US $1.4 million in 2019 and $1.5 million in 2018.
- **Positive EBITDA:** US $1.1 million EBITDA on revenue of US $4.7 million, following FY2019 EBITDA US $1.1 million. FY2020 revenue was also in-line (slightly down 1.9%) with FY2019 revenues of $4.8 million due to negligible variations in project timing during the second half of the year. The underlying NPAT for FY2020, was $83, compared to a loss of $871 in FY2019.
- **Solid Outlook:** Management has previously provided guidance that it expects FY2021 EBITDA and revenues to significantly outperform FY2020 on the basis of contract wins and strategic partnerships announced during FY2020, when combined with underlying recurring revenues.
- **Strategic Business Wins:**
  - The company entered a Global Teaming Agreement with Samsung Electronics in June 2020 to deliver next generation Mission Critical Push-To-Talk (MCPTT) over LTE solutions to telecommunications carriers and governments across the globe, utilising Etherstack's digital LMR (Land Mobile Radio) softswitching and MCPTX technologies.
  - Integration activities between the Samsung and Etherstack engineering teams are well advanced ahead of initial carrier deployments planned for 2021
  - AUD$4.1m Contract with the Australian Department of Defence to supply Etherstack technology to the Commonwealth of Australia. This was followed by a further Australian defence deal announced in February 2021 of AUD $.
  - New technology licensing deal in France with TPL Systemes opening a further royalty stream.
  - Etherstack won and delivered a material deal to supply digital radio network equipment for a major resources sector company in Western Australia. Follow-on expansion orders for this resources client are expected in FY2021.
- **Continued Recurring Revenue Growth:** Recurring revenues (support and royalty revenue) increased a further 27% in 2020, driven by long term support contracts and new royalty agreements.
- **Expansion Wins:** the first half of 2020 saw repeat business for the Company's deployed large digital radio networks as used in the public safety and electric utilities industries including Ergon Energy (Queensland) and North American network customers.
- **Successful Delivery in challenging times**
  - The Company successfully delivered and commissioned a digital radio network for the Royal Canadian Mounted Police (RCMP), the federal policing agency of Canada, within the Arctic Circle.
  - COVID-19 impact: In general, the impact on the business is expected to be at the lesser end of the range and while there have been some timing impacts in winning and delivering projects especially in the second half of the year, the company has been able to manage these issues to minimise disruption.
- **Improved Balance Sheet and Working Capital:** The Company successfully completed a capital raise in December 2020, raising AUD$5 million in December 2020 before costs, providing additional working capital in support of development activities in particular activities related to the Samsung agreement and Australian defence projects.

Strategic Report

Etherstack Activities and Differentiation

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

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 revenues from:

- **Mission critical radio products and networks;** these products may carry Etherstack brands or be sold as “white labelled” equipment (where customer puts its own brand on and sells under its own brand).
- **Specialised tactical communications equipment.**
- **Technology licences and royalties;** where Etherstack licenses its software and designs to companies who manufacture telecommunication equipment primarily for government public safety agencies and utilities.
- **System solution sales;** where Etherstack sells its products and software and then provides ongoing support services.
- **Customisation and Integration services;** and
- **Ongoing Support services** provided to the customer.

Etherstack has invested over $22 million into our suite of intellectual property assets over an extended period and has developed a substantial intellectual property portfolio that generates a diverse range of revenue streams from multiple technology areas, clients and regions, and from a mix of mature, new and emerging product lines.

Etherstack seeks to differentiate our Network offerings by:

- Focussing on specific industry sectors where our technology has a track record of uninterrupted performance such as government public safety services, electric utilities and mining & resources
- Providing local support in the Americas, Asia and Europe with global back up
- Ongoing investment in developing new capabilities such as unique “push-to-talk” over satellite and 4G/5G products aimed at the public safety market

Etherstack seeks to differentiate our Specialised Radio Product offerings by:

- Identifying and supplying market “gaps” where our products offer a competitive edge in terms of features, functions or price
- Leveraging small company agility to be first to market with innovative products

Strategic Report

CEO Review

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

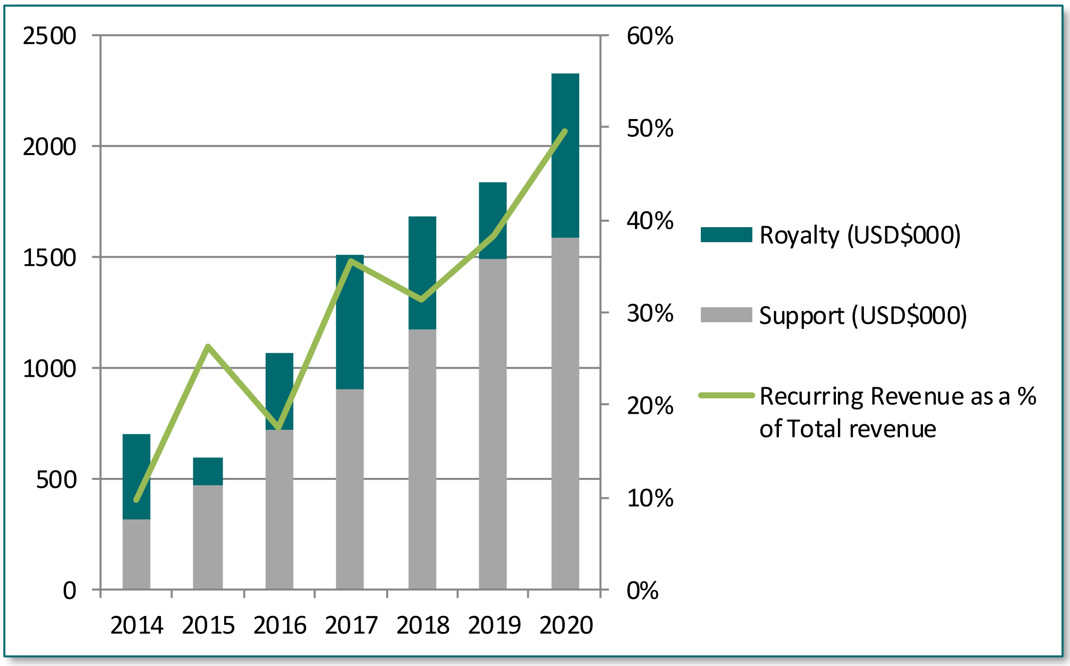
Total revenue in 2020 of $4,699 was comparable to 2019 of $4,792 with the decrease being 1.9%.

Project Revenues

Project revenues comprising Licence fees, installation/integration and supply of wireless communications technology were $2,368 in 2020 compared to $2,954 in 2019. Etherstack's revenues can be impacted by a small number of large projects and the revenue growth of the first half being 56% higher than the 2019 first half was not sustained in the second half of 2020. While some of this volatility is the inherent nature of Etherstack project activities whereby any delay or change to project schedules can cause revenue volatility between periods, the Company witnessed slowing of project activity and revenue due to travel restrictions and uncertainty arising from COVID-19 in the second half.

Recurring revenues:

2020 has seen continued growth of recurring revenue streams. Aggregate recurring revenues comprising Royalties and Support revenue streams are $2,331 for 2020 compared to $1,838 for 2019. The increase in 2020 represents a 27% increase over 2019. This KPI has increased 234% over the 6 years from $697 in 2014 to $2,331 in 2020.



Graph 1 - Recurring revenues from Support contracts and Royalty agreements 2014 to 2019 shown in USD and as a percentage of Total revenue

These recurring revenues contributed 50% of total revenue in 2020 (2019: 38%). This contribution can fluctuate, however, over the medium term, recurring revenues have grown in both absolute terms, from $697 in 2014 through to $2,331 in 2020 and, as a percentage of total revenue, 10% in 2014 through to 50% in 2020.

Recurring revenue streams reduce overall revenue volatility and cash flow volatility and reduce dependence upon a small number of large contracts where the scale of the project and nature of the end users means timing of revenue recognition is difficult to accurately predict.

Strategic Report

Support revenues

Support increased in 2020 to $1,588 from $1,490 in 2019 following the rollout of digital radio networks in 2020 as well as incremental growth to other supported networks. Support revenues have increased from $312 in 2014 to $1,588 in 2020. This is a compound annual growth rate of 31.2%.

Royalty revenues

Royalty revenues are generated from licence agreements whereby equipment manufacturers pay Etherstack a licence fee per item manufactured, for the use of Etherstack technology in their products, such as base stations and handsets.

Royalty revenues increased in 2020 to $743 from $348 in 2019. In general, the royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology however royalty revenues can also increase when Etherstack signs a new royalty arrangement and the licensee provides minimum guaranteed volumes. In 2020, the TPL Systemes agreement provided a minimum guaranteed royalty revenue stream of $478.

Strategic Business Wins:

2020 has seen a number of strategically important contracts signed.

Samsung - Foremost amongst these contracts is the Global teaming agreement with Samsung Electronics signed in June 2020. The agreement sets out the framework for delivery of next generation Mission Critical Push-To-Talk (MCPTT) over LTE solutions to Samsung customers and targets being telecommunications carriers and governments, utilising Etherstack's digital LMR (Land Mobile Radio) softswitching technologies. Etherstack and Samsung currently have a number of joint pursuits underway.

Defence sector - The Defence sector is a key target for Etherstack's technology and in December 2020, Etherstack Pty Limited announced a AUD$4.1m Contract with the Australian Department of Defence to supply Etherstack technology to the Commonwealth of Australia. This was followed by a further Australian defence deal announced in February 2021 of AUD $499,000.

Resources sector - Etherstack won and delivered a material deal to supply digital radio network equipment for a major resources sector company in Western Australia and is looking to leverage this success into other opportunities within this sector.

Government - The Company continues to achieve important contract wins and repeat business in the Government radio communications for public safety and electric utility sectors in Australia, USA and Canada. In particular Company saw network expansion wins in the first half of 2020 with repeat business for the Company's deployed large digital radio networks as used in the public safety and electric utilities industries including Ergon Energy and North American network customers.

Strategic Report

Result for 2020

Loss after income tax is $2,300 compared to Loss after income tax of $871 in 2018.

The key reason for the difference is a non cash finance charge of $2,383. This charge is a result of the sharp increase in the Company share price on 30 June 2020 and its effect on the convertible notes valuation. While the Company has issued convertible notes in the past and continues to have convertible notes on issue at 31 December 2020, the impact on the results of the 30 June 2020 revaluation is significant and not considered to be part of the underlying result.

	2020	2019
Statutory Loss after income tax	(2,300)	(871)
Less: Non-cash finance charge as at 30 June 2020	2,383	0
Underlying Statutory Profit/(Loss) after income tax	83	(871)

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

- The gross margin on Etherstack projects varies significantly depending on the mix of Etherstack hardware, software and services content, which are at a higher margin, and third-party products where the margins earnt by Etherstack are much lower. The nature of the projects in 2020 was different to the projects in 2019 and as a result the cost of sales was higher in 2020
- Administrative costs have decreased overall due to:
    - reduced travel and marketing costs in the COVID-19 environment
    - reduced amortisation charge in 2020 of $1,183 compared to $1,612. There is no change to the amortisation rate however a number of projects became fully amortised in 2019 and 2020 thereby leading to a reduced amortisation charge.
    - Increased recruitment costs as the group increased the engineer labour force
- The Etherstack group has operations in Australia, United States, United Kingdom and Japan and as a consequence is exposed to gains and losses from foreign currency fluctuations between the reporting currency USD and the other currencies in which transactions are undertaken; Australian dollar, Yen, Euro and GBP. In 2020 there was a currency translation gain of $127 compared to a loss of $180 in 2019
- Interest costs have decreased predominantly as a large proportion of convertible notes were converted into fully paid ordinary shares on 30 June 2020 and 1 July 2020
- Decreased revenues, as outlined above

Strategic Report

EBITDA

EBITDA has decreased to $1,080 from $1,093 in 2019 however EBITDA has remained positive despite the loss after tax of $2,300 predominantly due to add back of the finance charges of $2,365 and amortisation charge of $1,183.

	2020	2019
Statutory profit/(loss) after tax	(2,300)	(871)
After tax effect of:		
Depreciation	33	25
Depreciation of right-of-use assets	120	118
Amortisation and impairment	1,183	1,613
Interest and embedded derivatives revaluation and amortisation	2,365	337
Income tax	(321)	(129)
EBITDA	**1,080**	**1,093**

The Directors consider EBITDA to be a useful measure of performance as it excludes the significant non-cash amortisation expense.

Intellectual property development

Etherstack remains committed to developing new technology and intellectual property assets as well as refreshing, maintaining and enhancing its existing suite of intellectual property assets.

Accordingly, Etherstack continues to invest in intellectual property development and has invested $1,401 in the current year compared to $1,205 in 2019. Etherstack has now invested in excess of $22,000 into its portfolio of intellectual property assets.

Etherstack maintains the engineering skillsets and capacities to complete the developments in progress and to develop new technology to respond to opportunities in the future.

Etherstack is actively recruiting engineers across its four research and development locations in support of increased activity and a strong order book and pipeline.

Key Performance indicators

The primary performance indicator for the Group continues to be revenue. Current period consolidated revenue totalled $4,699 compared to $4,792 in 2019. The major reasons for 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 for 2020 was $2,331 compared to $1,838 in 2019 representing an increase of $493 or 27%.

The Groups' expectation is that royalty and support/maintenance income will continue to increase as a result of the commercial maturity of a number of our products and a growing installed base of supported customer networks.

Another key performance indicator for the Group is the investment in the development of intellectual property assets. As noted above, Etherstack invested $1,401 (2019 $1,205) representing 30% (2019:25%) of its revenue into intellectual property development in 2020.

Capital raise/Convertible notes converted

The company successfully completed a capital raising in December 2020 via an institutional placement with new institutional investors and high net worth investors, raising AUD$5 million before costs. The placement was undertaken at an issue price of AUD$0.58 per CDI and the proceeds of the raise will provide balance sheet flexibility to:

Strategic Report

- Enable and accelerate the pursuit of evolving market opportunities in Government Infrastructure, Defence and Public safety markets in particular those opportunities involving Etherstack's Mission Critical Push-To-Talk and PTT over satellite solutions;
- Enable and accelerate intellectual property developments needed for success in these market sectors; and
- Strengthen working capital resources.

In addition to the capital raise in December 2020 which raised $3,549 after costs, convertible notes were converted during the year into fully paid ordinary shares which further strengthened the balance sheet. The increase in shareholders' funds as result of the conversion was $3,692.

2020 Overall and Major Projects Update (Samsung & Defence)

Etherstack is generating solid positive operating cash, has a strong EBITDA , significantly improved balance sheet and positive underlying NPAT (Note 1). Management believe the Company is poised for growth.

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

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

Last week, Etherstack announced the award of a US$1.2m integration agreement in relation to the global partnership arrangement, which is to provide additional client funding to accelerate integration activities between the companies ahead of the initial carrier deployments.

It is anticipated that initial carrier deployments will be announced in the near term, during 2021.

Etherstack has announced two significant new Australian Department of Defence projects in the past three months, for which the initial phases total over AUD $4.6 million. The Company has other pursuits underway and has previously advised the market of a positive exposure to Australian defence and public safety infrastructure spending.

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

The Board looks forward to 2021 with confidence

Note 1 - Underlying EBITDA is a non IFRS performance measure. The calculation is outlined on page 7 of this report under Result for 2020.

Strategic Report

Principal Risks and uncertainties

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

Key business risks affecting the Group are set out below.

- **Dependence on key contracts**

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

- **Ability to continue as a going concern**

For the year ending 31 December 2020, and through to the date of this report, the Group maintains a strong cash position. The Group has increased its net cash position during 2020 and based on current and forecasted performance, including consideration of the impacts of Covid 19, the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

- **Technology risk**

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

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

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

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

- **Economic and exchange rate risk**

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

Strategic Report

- **Product liability**

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

- **Liquidity risk**

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

- ***COVID-19 impacts***

Management and the Board of Directors are continuously monitoring the impact of COVID-19 on the business generally and especially employees. In general, the impact on our business is expected to be at the lesser end of the range as:

- Project delivery timeframes have been extended as a consequence of COVID-19 measures and may continue to be extended however alternative arrangements have been made for delivery of projects and to date effective workaround arrangements are in place for all projects in progress. Notwithstanding the current arrangements have been effective and Etherstack has engineers in Australia, North America, Europe and Japan, it is possible that an inability to travel or travel restrictions, will impact our ability and efficiency in the delivery of projects in the future.
- Our engineers and the broader Etherstack workforce routinely worked remotely pre-COVID-19 and the nature of the work, being software development, means the majority can continue to work remotely on a full time or part time basis with minimal impact upon productivity.
- Etherstack revenues may be negatively impacted if the Company or our suppliers are unable to procure components for some of our Tactical communications products or lead times become protracted.
- The impact of COVID-19 is inherently uncertain. As many of our projects are long term infrastructure projects often funded by governments or semi-government entities, with funding agreed, we are not expecting a significant impact on short term revenues although signing of certain new contracts could experience some delays. The outlook over the medium term is less certain however it is important to note that government stimulus spending on infrastructure projects and public safety in general may provide additional opportunities in the medium term.

Notwithstanding the above, a very high degree of caution will continue to be exercised through this uncertain period. Management and the Board of Directors will continue to monitor the impact and take all necessary actions to protect the business and all stakeholders.

David Deacon
Chief Executive Officer

Report of the Directors

Directors and Key Management

Peter Stephens – Non-Executive Chairman

Peter is currently Chairman of Etherstack, a director of various private companies and also runs a venture capital practice. He was previously Head of European Equities Sales at Salomon Brothers and Credit Lyonnais. He raised the initial funding for Tristel plc in 2003 and remained a director of Tristel plc from flotation on London Stock Exchange's AIM market in 2005 until 2013. He was Chairman of Getech on flotation on AIM in 2005 until 2013 and remains a director. Peter has recently become Chairman of True Luxury Travel, a long-haul holiday specialist currently focused on Africa having been Chairman and initial investor in Scott Dunn which was sold in 2014 for £77m. He is also Chairman of Boisdale Canary Wharf, a Scottish themed restaurant and Chairman of Noble Rot Fine Wines.

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

Peter has been on the board of Etherstack Wireless Limited since September 2007 and was appointed to the Board of Etherstack plc in 2012 as Chairman.

Paul Barnes, FCCA MCSI – Non-Executive Director

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

Paul started his career with the City of London accounting firm Melman Pryke & Co (now part of Grant Thornton). Following qualification, he 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 Africa. His expertise extends to spectrum management and new generation fixed and mobile technologies including optical fibre and 4G/LTE and 5G services.

Scott has a separate consultancy practice, through which he has advised a range of leading corporates and organisations including the Commonwealth, South Australian and Victorian Governments, APEC Business Advisory Council, NBNCo, Macquarie Group, World Bank, International Telecommunications Union (ITU), Asian Development Bank (ADB), ASEAN, GSMA, Australian Competitive Carriers Coalition ('Commpete'), SDPPI (Indonesia's spectrum regulator), ARCIA, Macquarie Telecommunications, Malaysian Communications and Multimedia Commission (MCMC), National Broadcasting and Telecommunications Commission (Thailand), Myanmar Government, TRA (UAE), KPMG, Telekom

Report of the Directors

Malaysia, Axiata Group, edotco Group, and Telkom South Africa. In the past 12 months, he was the principal author of the ITU Report *Pandemic in the Internet Age: communications industry responses: GSR Discussion paper on ensuring connectivity and business continuity key lessons learned* (15 June 2020), and GSMA report with Network Strategies of New Zealand entitled *Legacy mobile network rationalisation: Experience of 2G and 3G migrations in Asia-Pacific*, (May 2020).

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

Scott joined the Board as an Independent Non-Executive Director in 2012 and became chairman of the Audit & Risk Management Committee in 2012. In 2016, Scott became chairman of the Remuneration and Nomination committees.

David Deacon – Chief Executive Officer, Executive Director

David has over 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

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 Chartered Accountants Australia and New Zealand, and holds an Executive MBA from the Australian Graduate School of Management.

Report of the Directors

Company Directory

Company Registration No. 7951056

ARBN 156 640 532

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

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

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United Kingdom

Website
www.etherstack.com

Report of the Directors

Directors Report

The Directors present their annual report with the statutory financial statements of the Group for the year ended 31 December 2020. All amounts are in USD $000 unless otherwise indicated.

This report should be read in conjunction with the Strategic Report on pages 3 to 11.

1. Board of Directors and Officers of the company

The names of the Directors who held office during the 2020 year and to the date of this report are:

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 incurred a loss after tax for the year of $2,300 (2019 loss of $871).

Earnings/(Loss) per share

Basic loss per share from continuing operations of 1.96 US dollars in 2020 compares to 2019 Basic earnings per share of 0.78 US cents.

3. Going Concern

For the year ending 31 December 2020, and through to the date of this report, the Group maintains a strong cash position. The Group has increased its net cash position during 2020 and based on current and forecasted performance, including consideration of the impacts of Covid 19, the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

4. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: $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 2020 and Grant Thornton UK LLP will be proposed for re- appointment at the next Annual General Meeting.

Report of the Directors

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
15 March 2021

Report of the Directors

Corporate Governance Report

The Board of Directors is responsible for the overall strategy, governance and performance of the Etherstack plc Group of companies (the Group). The Group is a wireless communications technology provider whose strategy is to 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 and resource companies. The Board has adopted a corporate governance framework, based upon ASX Corporate Governance Principles, which it considers to be suitable given the size and strategy of the Company and its operating environment.

The Board of Directors of Etherstack plc consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act) in the decisions taken during the year ended 31 December 2020.

The Board oversees the business in such a way to ensure the long-term success of the business. The key driver of the long-term success of the business is sustained appropriate investment into technology research and development activities.

In turn this investment requires building and maintaining the skills of our employees who are fundamental to the success of the business. Etherstack aims to be a responsible employer in every location. The health, safety and well-being of our employees is one of our primary considerations in the way we do business.

Determining which products to develop and where to invest in research and development requires extensive engagement with customers and end-users and through this engagement, we are able to gain an understanding of their views, priorities and challenges.

An appropriate and positive relationship with suppliers and customers is a pre-requisite to the successful operation of the Company and exists in all areas of the business

As the Board of Directors, our intention is to behave responsibly and ensure that management operate the business in a responsible manner, operating to the highest standards of business conduct and good governance.

This intention includes behaving responsibly toward our shareholders, convertible note holders and option holders and treat them fairly and equally, so they too may benefit from the success of the company.

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

Principle 1: Lay solid foundations for management and oversight

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

Board Charter

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

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

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.

Report of the Directors

Principle 2: Structure the board to add value

Structure of the Board

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

Mr Peter Stephens, Chair – Non-Executive Director

Mr Paul Barnes – Independent, Non-Executive Director

Mr Scott Minehane – Independent, Non-Executive Director

Mr David Deacon –Chief Executive Officer and Executive Director

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

The skills, experience and expertise of each Director are set out on pages 12 and 13. At all times, the Board is to have a complementary mix of financial, industry and technical skills. The Board believes the current members have the necessary knowledge and experience to direct the Group. A summary of Board members skills is set out below.

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

Chairman's responsibilities and independence

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

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

In 2016, following participation in the Entitlement issue and shortfall offer in which Peter Stephens increased his shareholding, Peter Stephens is no longer considered an independent director. Peter Stephens was an independent director from the date of his appointment in 2012 through to 2016. Peter Stephens remains as Chairman of the Board of Directors of Etherstack plc.

Report of the Directors

Board independence

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

At this time, there are two Directors the Board has classified as independent - Paul Barnes and Scott Minehane. Accordingly, the Board does not have a majority of independent Directors however the Board composition is considered appropriate for the Company in its current circumstances.

Paul Barnes is a significant shareholder holding 5.28% of the issued capital of Etherstack plc however the Board is of the opinion this shareholding does not compromise Paul Barnes' independence. The Board has formed this view on the basis of Paul Barnes ability to demonstrate the judgements required of an independent director from his appointment as a director of Etherstack plc in 2012 up to 2016 when participation in Entitlement issue and shortfall offer led to Paul Barnes' shareholding exceeding 5%.

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

Board committees

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

- an Audit and Risk Management Committee (refer Principle 4 summary);
- a Remuneration Committee (refer Principle 8 summary); and
- a Nomination Committee.

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

Nomination Committee

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

Director selection process and Board renewal

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

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

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

Report of the Directors

Board, Committee and Director performance evaluation

The Board undertakes ongoing self-assessment. The review process in 2020 included an assessment of the performance of the Board, the Board Committees, and each Director. The review:

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

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

Induction

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

Continuing education

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

Access to information, indemnification and independent advice

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

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

Conflicts of interest

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

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

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

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

Operation of the Board

The Board met 7 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.

Report of the Directors

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	7	7	5	5	3	3	1	1
Paul Barnes	7	7	5	5	3	3	1	1
David Deacon	7	7	-	-	-	-	-	-
Scott Minehane	7	7	5	5	3	3	1	1

Principle 3: Promote ethical and responsible decision making

Corporate Code of conduct

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

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

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

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

Dealings in securities

The Company has 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 Financial Officer: male,
- Workforce (excluding senior management and executive directors); 28 Employees: 2 female, 26 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".

Report of the Directors

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

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

Audit and Risk Management Committee composition

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

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

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

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

Principle 5: Make timely and balanced disclosure

The Company is committed to ensuring:

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

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

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

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

Principle 6: Respect the rights of shareholders

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

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

Report of the Directors

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

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

Principle 7: Recognise and manage risk

The Company is committed to ensuring that:

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

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

The Board has delegated to the Audit and Risk Management Committee responsibility for implementing the risk management system and reporting to the Board. Key business risks affecting the Group have been outlined in the Strategic Report.

The Audit and Risk Committee reviews the entity's risk management framework at least annually to satisfy itself that it continues to be sound and such a review has taken place in relation to 2020.

The Company does not have an internal audit function. The responsibility for undertaking and assessing risk management and internal control effectiveness is delegated to management. Management is required to assess risk management and associated internal compliance and control procedures and report to the Audit and Risk Management Committee.

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

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

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.

Report of the Directors

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

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

Remuneration policy for Executive Directors

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

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

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

Remuneration package for Executive Directors

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

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

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

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

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

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

Report of the Directors

Remuneration policy for Non-Executive Directors

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

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

Directors' remuneration
The Directors earned the following remuneration:

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

2019	Salary/fees USD	Long-term benefits Superannuation USD	Total USD
Executive Directors			
David Deacon	260,000	1,981	261,981
	260,000	1,981	261,981
Non-Executive Directors			
Peter Stephens	33,179	-	33,179
Paul Barnes	45,190	-	45,190
Scott Minehane	31,284	2,972	34,256
	109,653	2,972	112,625
TOTAL	**369,653**	**4,953**	**374,606**

Report of the Directors

Directors' interests

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

Director	Number of ordinary Shares 31 December 2020	Number of ordinary Shares 31 December 2019
David Deacon	48,241,850	48,241,850
Peter Stephens	17,382,587	17,322,587
Paul Barnes	6,850,000	6,850,000
Scott Minehane	81,875	81,875

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 accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs and profit or loss of the company and Group for that period. In preparing these financial statements, the directors are required to:

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

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

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the 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
15 March 2021

Independent auditor's report to the members of Etherstack plc

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Etherstack plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company statement of Financial Position, the Consolidated and Company statement of changes in equity, the Consolidated and Company statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International accounting standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent company financial statements have been properly prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

Our evaluation of the directors' assessment of the group's and the parent company's ability to continue to adopt the going concern basis of accounting included audit of cash and net assets position as at 31 December 2020, current year performance, projections for the period until March 2022 which are higher than current year performance and post balance sheet events. We note that the Group and the parent is a single cash generating unit and we observe that the Group has a cash balance of $4.2m as at 31 December 2020 and operating cashflow of $1.7m for the year ended 31 December 2020. We also note the post balance sheet crystallisation of a new revenue contract which supports their future projections.

Independent auditor's report to the members of Etherstack plc

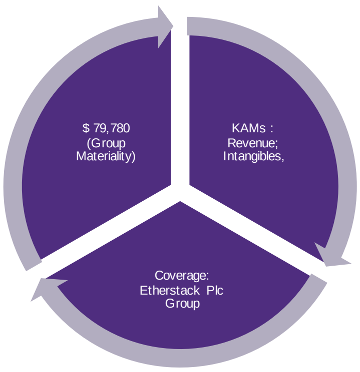
In our evaluation of the directors' conclusions, we considered the inherent risks associated with the group's and the parent company's business model including effects arising from Covid-19, we assessed and challenged the reasonableness of estimates made by the directors and the related disclosures and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

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

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

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

Our approach to the audit

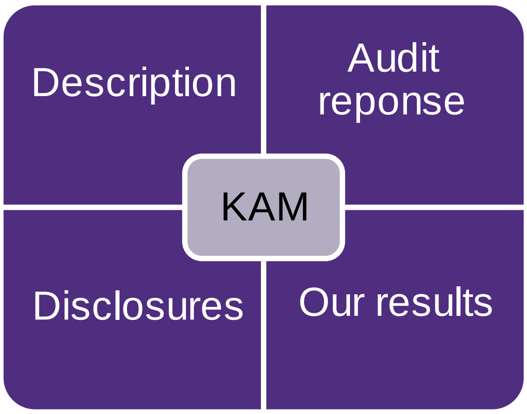


Overview of our audit approach
Overall materiality: Group: $79,780, which represents 2% of the group's projected revenue for FY 2020. Parent company: $59,835. Materiality was calculated at 1.5% of total assets as benchmark which was capped at 75% of the Group materiality.
Key audit matters were identified as • capitalisation of development cost (same as previous year); • carrying value of intangible assets (same as previous year); • revenue recognition (same as previous year)
We performed an audit of the financial information of the components and parent using component materiality (full-scope audit).

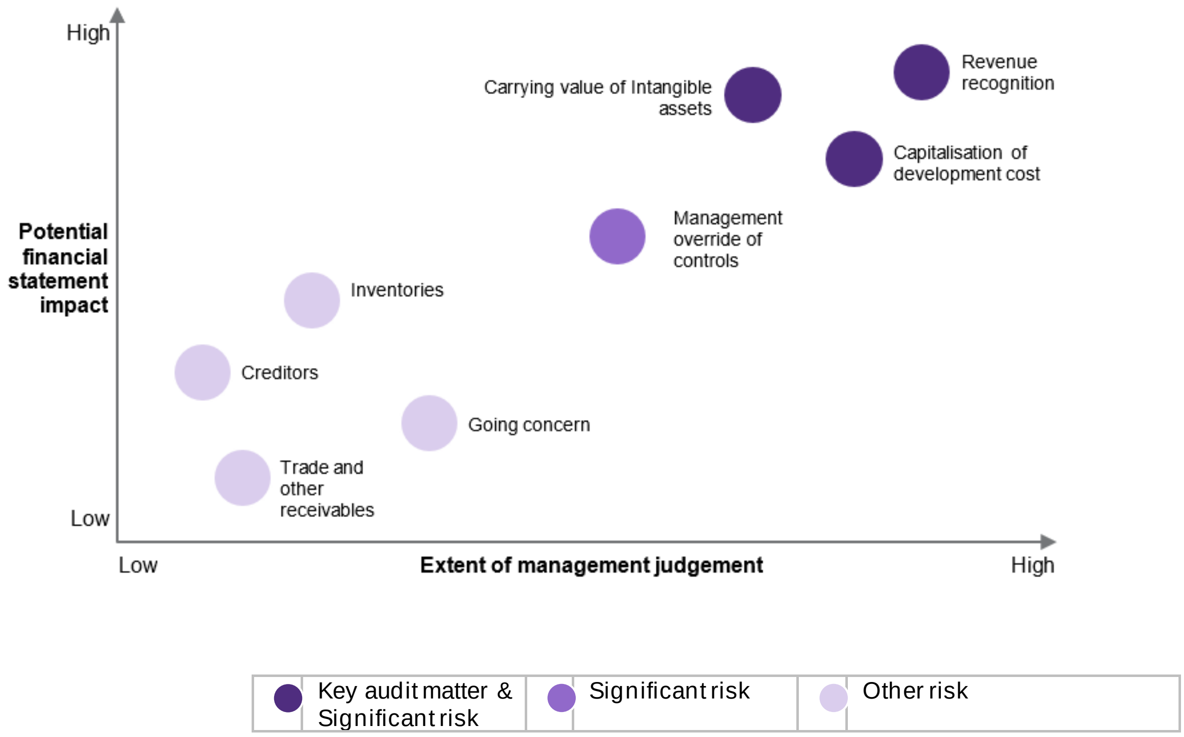
Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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



Independent auditor's report to the members of Etherstack plc



Key Audit Matter – Group	How our scope addressed the matter – Group
Capitalisation of development costs We identified capitalisation of development costs as one of the most significant assessed risks of material misstatement due to error. At the year end the group had \$3.5m of intangible assets (2019: \$3.3m) including \$3.4m (2019: \$3.1m) of capitalised development costs. During 2020 \$1.4m (2019: \$1.2m) of internal costs were capitalised. The Directors and Management assess each project according to the capitalisation criteria set out in International Accounting Standard (IAS) 38: Intangible Assets throughout the project life. Judgement is required to determine whether the criteria are met, in particular whether future economic benefits will be generated and the intention of the Group to complete development and use or sell the asset. These judgements are dependent on expectations of future events.	In responding to the key audit matter, we performed the following audit procedures: • assessing product development activities alongside the qualifying nature of the projects to ensure that capitalisation is in accordance with the recognition criteria for capitalisation under IAS 38; • recalculation of the mathematical accuracy of the capitalised amounts; • agreeing amounts capitalised to supporting evidence including timesheets on a sample basis • assessment of management's cash flow forecasts, including challenging assumptions used in the calculations through comparison to prior year forecasts and results achieved, supporting the generation of future economic benefits from the capitalised costs; and • obtaining an understanding from management of the details of projects capitalised and assessing whether they relate to additional functionality that can be capitalised in accordance with IAS 38.

Independent auditor's report to the members of Etherstack plc

Key Audit Matter – Group	How our scope addressed the matter – Group
Relevant disclosures in the Annual Report and Accounts FY 2020 • Financial statements: Note 9, Intangible assets and accounting policies	**Our results** Our testing did not identify any material misstatements with the capitalisation of intangible assets in accordance with stated accounting policies and IAS 38. The detailed calculations and supporting evidence were consistent with the amounts capitalised.
Carrying value of intangible assets We identified carrying value of intangible assets as one of the most significant assessed risks of material misstatement due to error. At the year end the Group had $3.5m of intangible assets (2019: $3.3m) consisting of capitalised development costs, engineering software and customer contract intangibles. The Group is required to perform an impairment review of assets not brought into use and to consider other assets for indicators of impairment in accordance with IAS 36: Impairment of Assets. The losses reported in this year and over previous years are an indicator of potential impairment, and a risk that the carrying value of these assets may be higher than the recoverable amount. The Group's impairment review of its intangible assets incorporated significant judgements in assumptions, such as timing and extent of future revenues, gross margin and discount rate used. The Directors consider that there is one cash generating unit (CGU) and all intangibles are allocated to this CGU. **Relevant disclosures in the Annual Report and Accounts FY 2020** • Financial statements: Note 9, Intangible assets and accounting policies	In responding to the key audit matter, we performed the following audit procedures: • inquiry and consideration of the appropriateness of the methodology applied in the impairment review process and the judgement applied in the determination of the CGUs of the business against the requirements of IAS 36; • assess the adequacy of disclosures against the requirements of IAS 36; and • assessing the impairment models and value in use calculations by: - recalculation of the mathematical accuracy of the impairment models; - comparing forecast revenue growth to internal supporting information and pipeline contract discussions; - comparing the discount rate applied to future cash flows against external indicators such as borrowing rate available to the group; and - evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans and discussions with management; - inquiry into any assets that have been abandoned or will no longer be developed; - comparison of the market capitalisation of the business against the carrying value of the group's single CGU. - review of post balance sheet events to support the projected cashflows **Our results** Our testing did not identify any material misstatements with regards to the carrying value of the intangible assets in accordance with IAS 36 Impairment of Assets and the Group's stated accounting policies.

Independent auditor's report to the members of Etherstack plc

Revenue recognition

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

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

During 2020 the Group generated $4.7m (2019: $4.8m) of revenue. The Group has revenue from four income streams; licence fees design development and supply of wireless communications technology, support and royalties. Determining the amount of revenue to be recognised can require management to make significant judgements around timing and extent of recognition, ensuring all revenue is recognised in accordance with IFRS 15, and specifically that product revenue and royalty revenue is recognised in accordance with the terms of the contract and support revenue is recognised over the appropriate support contract period.

Relevant disclosures in the Annual Report and Accounts FY 2020

- Financial statements: Note 2, Revenue and accounting policies

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

- assessing whether revenue recorded in the period was consistent with the Group's accounting policy for all material revenue transactions and whether that was compliant with IFRS 15;
- agreeing significant licence fees design development and supply of wireless communications technology revenue and royalty amounts to customer contracts and purchase orders, delivery notes and cash receipts, ;
- for a sample of support contracts, obtaining copies of signed contracts and purchase orders and recalculating the amounts of revenue recognised and deferred;
- selecting a sample of debtor invoices outstanding at the year end and comparing year end balances to post year end receipts or other supporting documentation;
- assessed significant contracts entered into during the period for revenue recognition compliance in accordance with IFRS15;
- testing of the occurance of revenue during the year from the opening deferred revenue;
- testing the amounts deferred and accrued at the period end, as well as a review of income recognised in January 2021, to assess whether revenues were recorded in the appropriate period.

Our results

Our audit work did not identify any material misstatements in revenue recognised in the year or any material instances of revenue not being recognised in accordance with stated accounting policies.

Our application of materiality

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

Materiality was determined as follows:

Materiality measure	Group	Parent company
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial	

Independent auditor’s report to the members of Etherstack plc

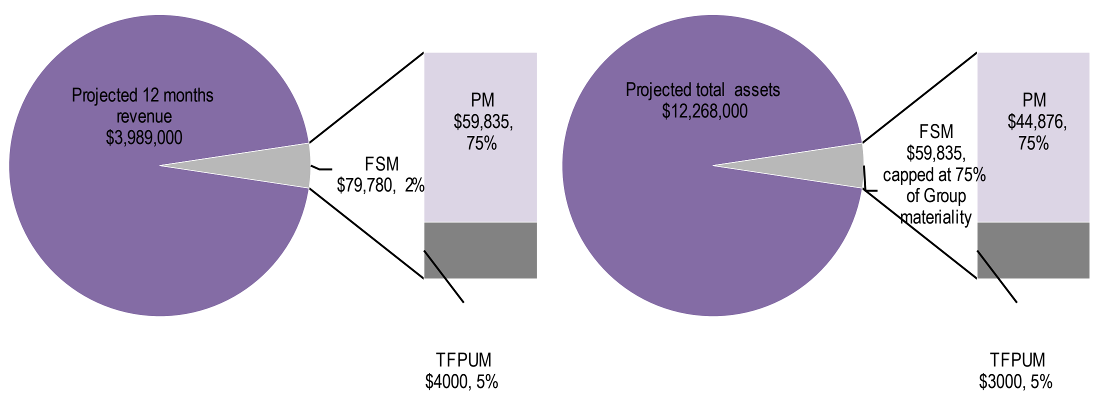
Materiality measure	Group	Parent company
	statements. We use materiality in determining the nature, timing and extent of our audit work.	
Materiality threshold	$79,780 which is 2% of projected revenue for FY 2020.	$59,835 which is 1.5% of projected total assets as at 31 December 2020, capped at 75% of Group materiality.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: Group has been making losses in prior years and the losses have been volatile so it was considered not appropriate to use PBT as benchmark. Revenue is a key performance indicator used by management and shareholders in assessing performance of the business and is a generally accepted audit benchmark and therefore this benchmark is considered the most appropriate. In determining the materiality at planning stage we considered 2% of the extrapolated 12 months figures of year to date 10 months revenue. The actual revenue for 12 months did not require change to original materiality. Materiality for the current year is slightly higher than the level that we determined for the year ended 31 December 2019 mainly due to the increase from 1.5% to 2% of the projected revenue which is lower in current year based on assessment of current year financial information. .	In determining materiality, we made the following significant judgements: The parent is a non-trading entity and holds investments in other group trading entities. We calculated materiality using total projected assets as at 31 December 2020 as benchmark but capped materiality to 75% of the group materiality as the standalone materiality was higher than group performance materiality. Materiality for the current year is higher than the level that we determined for the year ended 31 December 2019 based on assessment of current year financial information.
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	$ 59,835 which is 75% of financial statement materiality.	$ 44,876 which is 75% of financial statement materiality.
Significant judgements made by auditor in determining the performance materiality	In determining materiality, we made the following significant judgements : We determined that 75% would be an appropriate threshold considering following points : • Group’s business at current stage is non complex due to low volume of transactions and operations. Also, there are no complex	In determining materiality, we made the following significant judgements : We determined 75% would be an appropriate threshold considering the following points : • The parent is a non-trading entity and holds investments in other group trading entities. Also, there are no complex transactions involved in the current year.

Independent auditor's report to the members of Etherstack plc

Materiality measure	Group	Parent company
	transactions involved in current year. • We identified few misstatements in prior year audit which had immaterial impact on overall financial statement.	• No misstatements identified in the prior year audit. •
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Communication of misstatements to the audit committee	We determine a threshold for reporting unadjusted differences to the audit committee.	
Threshold for communication	$4,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	$3,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

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

Overall materiality – Group ***Overall materiality – Parent company***



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

An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the Group's business. We took into account the size and risk profile of each entity, any changes in the business and other factors when determining the level of work to be performed at each entity, which in particular included the following considerations:

- the group has centralised processes and controls over the key areas of our audit focus. Group management are responsible for all judgemental processes and significant risk areas. All accounting is centralised and we tailored our audit response accordingly with all audit work being undertaken by the audit team. In assessing

Independent auditor's report to the members of Etherstack plc

the risk of material misstatement to the Group financial statements we considered the transactions undertaken by each entity and therefore where the focus of our work was required;

- We performed full scope audits of the financial statements of the group and it's subsidiaries and the parent company based on the group and component materiality determined.
- the total percentage coverage of full-scope over revenues was 100%
- the total percentage coverage of full scope over total assets was 100%
- Our audit approach was fully substantive in nature in current year. In last year we performed full scope audits of the financial statements of the parent company Etherstack plc, Etherstack Wireless Limited and Etherstack Pty Limited based on their materiality to the group and a targeted audit approach was undertaken for Etherstack Inc and Auria Wireless Pty Limited based on their size and due to the revenue recognised by each entity. However in current year we changed our approach and have performed full scope audit of all components as this was deemed more efficient.

Other information

The directors are responsible for the other information. The other information comprises the information included in the financial report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

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

Matters on which we are required to report by exception

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

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

Independent auditor's report to the members of Etherstack plc

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.
Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

We understood how Etherstack plc is complying with those legal and regulatory frameworks by making enquiries of management, those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, meeting of minutes with Audit Committee and correspondence received from regulatory bodies and review of legal and professional expense ledger.

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

- We enquired of management about all the laws and regulations which are required to be complied by the group and based on our enquiry they are required to comply the following laws and regulations:
  - Etherstack is incorporated in the UK and has adopted International accounting standards in conformity with the requirements of the Companies Act 2006
  - Etherstack is also required to comply with Australian Corporation Law, employment law, Income tax law, Goods and service tax (GST) act, health and safety regulations, data protection act/GDPR, consumer credit licensing, modern slavery act and equivalent in the respective countries of operation.
- We understand from management that the finance team ensures compliance with all the laws and regulations. Management review compliance with laws and regulation on a regular basis. They have a compliance schedule to ensure completeness of all compliance obligations.
- As Etherstack is listed on the Australian Securities Exchange (ASX) and therefore is required to comply with the Corporate Governance and ASX Listing Rules. We assessed whether Etherstack is in conformity with this framework.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from different parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

Independent auditor’s report to the members of Etherstack plc

- Our audit procedures involved: journal entry testing, with a focus on manual consolidation journals and journals indicating large or unusual transactions based on our understanding of the business, group management. In addition, we completed audit procedures to conclude on the compliance of disclosures in the annual report and accounts with applicable financial reporting requirements.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free of fraud or error.
- We enquired from management on any non-compliance, notification from the local governing authorities, legal notices received during the year. We reviewed their legal and professional expenses ledger to identify any lawyer or other professional fees specifically for any non-compliance. During the course of our audit procedures we have not identified any specific non compliance.
- The engagement team collectively had the appropriate competence and capabilities to identify or recognize non-compliance with laws and regulations;

Use of our report

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

Grant Thornton UK LLP

Nicholas Page
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
17 March 2021

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Revenue from Contracts with Customers	2,3	4,699	4,792
Cost of sales		(2,032)	(1,507)
Gross Profit		2,667	3,285
Other income; research & development and COVID-19 incentives	2	125	100
Amortisation and impairment of intangible assets	4	(1,183)	(1,613)
Other administrative expenses	4	(1,992)	(2,255)
Net foreign exchange gains/(losses)	4	127	(180)
Total administrative expenses		(3,048)	(4,048)
Group operating (loss) / profit from continuing operations		(256)	(663)
Embedded derivatives revaluation and amortisation (net)		(2,216)	(16)
Finance income-interest	7	-	-
Finance expense-borrowing costs	7	(149)	(321)
Net finance expense		(2,365)	(337)
Loss before taxation		(2,621)	(1,000)
Income tax benefit	8	321	129
(Loss)/Profit after taxation for the year attributable to the equity holders of the parent		(2,300)	(871)
Other comprehensive income/(Loss)			
Items that may be classified subsequently to profit and loss:			
Exchange differences on translation of foreign operations		(285)	35
Total comprehensive loss for the year attributable to the equity holders of the parent		**(2,585)**	**(836)**

		Cents	Cents
Basic earnings/(loss) per share	21	(1.96)	(0.78)
Diluted earnings/(loss) per share	21	(1.96)	(0.78)

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

Consolidated Statement of Financial Position

as at 31 December 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents		4,180	931
Trade and other receivables	13	1,410	1,870
Inventories	12	318	155
Right-of-use assets	17	128	92
		6,036	3,048
Non-current assets			
Property, plant and equipment	11	73	35
Trade and other receivables	13	404	-
Intangible assets	9	3,516	3,295
Right-of-use assets	17	75	84
		4,068	3,414
TOTAL ASSETS		**10,104**	**6,462**
Current liabilities			
Trade and other payables	14(a)	2,760	2,467
Current tax liabilities		61	46
Deferred revenue	15	1,641	1,248
Employee entitlements		357	236
Lease liabilities	14(c)	145	109
Convertible notes	14(b)	233	-
Borrowings	14(b)	572	1,262
		5,769	5,368
Non-current liabilities			
Deferred tax liability	8(b)	14	40
Deferred revenue	15	103	84
Employee entitlements		10	43
Lease liabilities	14(c)	112	130
Convertible notes	14(c)	-	1,417
		239	1,714
TOTAL LIABILITIES		**6,008**	**7,082**
NET ASSETS		**4,096**	**(620)**
Capital and reserves			
Share capital	18	739	652
Share premium account		15,212	7,998
Merger reserve		3,497	3,497
Share based payment reserve		609	609
Foreign currency translation reserve		(2,983)	(2,698)
Retained earnings		(12,978)	(10,678)
TOTAL EQUITY		**4,096**	**(620)**

The financial statements of Etherstack plc (company registration 7951056) were approved by the Board of Directors and authorised for issue on 15 March 2021. Signed on behalf of the Board of Directors by:

Paul Barnes FCCA, Director

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

Company Statement of Financial Position

as at 31 December 2020

	Note	2020 $'000	2019 $'000
Current assets			
Cash and cash equivalents		4	-
Trade and other receivables	13	20	18
		24	18
Non-current Assets			
Investments in subsidiaries	10	-	-
Trade and other receivables	13	12,244	8,034
		12,244	8,034
TOTAL ASSETS		**12,268**	**8,052**
Current Liabilities			
Trade and other payables	14(a)	195	253
Convertible notes	14(b)	233	-
Borrowings	14(b)	617	1,269
		1,045	1,522
Non-current Liabilities			
Convertible notes		-	1,417
		-	1,417
TOTAL LIABILITIES		**1,045**	**2,939**
NET ASSETS		**11,223**	**5,113**
Capital and reserves			
Share capital	18	739	652
Share premium account		15,212	7,998
Merger reserve		6,742	6,742
Foreign currency reserve		100	100
Share-based payment reserve		609	609
Retained earnings		(12,179)	(10,988)
TOTAL EQUITY		**11,223**	**5,113**

As permitted by section 408 of the Companies Act 2006, the income statement of the parent company, Etherstack plc, is not presented as part of the financial statements. The parent company's loss for the financial year was $1,191 (2019 loss $3,040).

The financial statements of Etherstack plc (company registration number 7951056) were approved by the Board of Directors and authorised for issue on 15 March 2021.

Signed on behalf of the Board of Directors

Paul Barnes FCCA, Director

The accompanying notes form an integral part of the financial statements

Consolidated Statement of Changes in Equity

At 31 December 2020

	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 2019	645	7,742	3,497	609	(2,733)	(9,807)	(47)
Loss for the year	-	-	-	-	-	(871)	(871)
Other comprehensive income	-	-	-	-	35	-	35
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**35**	**(871)**	**(836)**
At 31 December 2018	**645**	**7,742**	**3,497**	**609**	**(2,733)**	**(9,793)**	**(33)**
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	**7**	**256**	**-**	**-**	**-**	**-**	**263**
Balance at 31 December 2019	**652**	**7,998**	**3,497**	**609**	**(2,698)**	**(10,678)**	**(620)**
Loss for the year	-	-	-	-	-	(2,300)	(2,300)
Other comprehensive income	-	-	-	-	(285)	-	(285)
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(285)**	**(2,300)**	**(2,585)**
Issue of Share Capital	**87**	**7,214**	**-**	**-**	**-**	**-**	**7,301**
Transactions with owners	**87**	**7,214**	**-**	**-**	**-**	**-**	**7,301**
At 31 December 2020	**739**	**15,212**	**3,497**	**609**	**(2,983)**	**(12,978)**	**4,096**

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

Company Statement of Changes in Equity

	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 2019	**645**	**7,742**	**6,742**	**609**	**100**	**(7,948)**	**7,890**
Loss for the period	-	-	-	-	-	(3,040)	(3,040)
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(3,040)**	**(3,040)**
At 31 December 2019	**645**	**7,742**	**6,742**	**609**	**100**	**(7,948)**	**7,890**
Issue of Share Capital	7	256	-	-	-	-	263
Transactions with owners	**7**	**256**	**-**	**-**	**-**	**-**	**263**
Balance at 31 December 2019	**652**	**7,998**	**6,742**	**609**	**100**	**(10,988)**	**5,113**
Loss for the period	-	-	-	-	-	**(1,191)**	**(1,191)**
Total comprehensive income	**-**	**-**	**-**	**-**	**-**	**(1,191)**	**(1,191)**
Issue of Share Capital	87	7,214	-	-	-	-	7,301
Transactions with owners	**87**	**7,214**	**-**	**-**	**-**	**-**	**7,301**
Balance at 31 December 2020	**739**	**15,212**	**6,742**	**609**	**100**	**(12,179)**	**11,223**

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		5,528	5,628
Payments to suppliers and employees		(4,145)	(4,473)
Interest paid		(31)	(152)
Government grants and tax incentives		411	379
Income tax paid		(30)	(18)
Net cash generated from operating activities		**1,733**	**1,364**
Cash flow from Investing activities			
Additions to intangible assets	9	(1,401)	(1,205)
Payments for property, plant and equipment	11	(69)	(18)
Net cash flow (used in) investing activities		**(1,470)**	**(1,223)**
Cash flows Financing activities			
Proceeds from issue of shares capital		3,827	-
Share issue cost		(238)	-
Proceeds from convertible notes issue		-	1,398
Principal element of lease payments		(132)	(110)
Repayments of loan		(504)	(534)
Interest paid		(52)	(15)
Net cash flow (used in) from financing activities		**2,901**	**739**
Net increase/ (decrease) in cash and cash equivalents		**3,164**	**880**
Effect of foreign exchange rate changes		85	-
Cash and cash equivalents at 1 January		**931**	**51**
Cash and cash equivalents at 31 December		**4,180**	**931**

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

Company Statement of Cash Flows

For the year ended 31 December 2020

	2020 $'000	2019 $'000
Cash flows from operating activities		
Intercompany (payments)/ receipts	(2,727)	(845)
Payments to suppliers and employees	(338)	(237)
Net cash generated from/ (used in) operating activities	**(3,085)**	**(1,082)**
Cash flows Financing activities		
Proceeds from issue of shares capital	3,827	-
Share issue cost	(238)	-
Proceeds from convertible notes issue	-	1,398
Re-payments of loan	(469)	(293)
Interest paid	(52)	(15)
Net cash flow (used in) from financing activities	**3,068**	**1,090**
Net increase/ (decrease) in cash and cash equivalents	**3**	**8**
Effect of foreign exchange rate changes	1	(8)
Cash and cash equivalents at 1 January	**-**	**-**
Cash and cash equivalents at 31 December	**4**	**-**

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

Notes to the Consolidated and Company Financial Statements

Notes to the Consolidated and Company Financial Statements

Section I: Basis of Accounting

1 Basis of Accounting

1.1 General Information

The financial statements of Etherstack plc and its subsidiaries (the Group) for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 15 March 2021 and the Statement of Financial Position was signed on the Board's behalf by Mr Paul Barnes. Etherstack plc is a public limited company incorporated and domiciled in England and Wales. The Company's ordinary shares, when held as a Chess Depository Interest (CDI) and registered on the CDI register, are tradable on the Australian Securities Exchange (ASX). Ordinary shares on the UK share register cannot be traded on the ASX.

1.2 Basis of Preparation

The Group's financial statements have been prepared in accordance with International accounting standards in conformity with the requirements of the Companies Act 2006 as they apply to the financial statements of the Group for the year ended 31 December 2020.

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

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

1.3 Basis of consolidation

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

Control is achieved where the Group has the power to govern the financial and operating policies of a Group undertaking so as to obtain economic benefits from its activities. Subsidiary undertakings' results are adjusted, where appropriate, to conform to group accounting policies.

1.4 Going concern

For the year ending 31 December 2020, and through to the date of this report, the Group maintains a strong cash position. The Group has increased its net cash position during 2020 and based on current and forecasted performance, including consideration of the impacts of Covid 19, the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements. Accordingly, the directors continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.5 Foreign currency translation

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

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

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate

Notes to the Consolidated and Company Financial Statements

significantly during that period, in which case the exchange rates at the date of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity.

1.6 Judgements and key sources of estimation uncertainty

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

- Capitalisation of development costs
- Impairment of intangible assets and investments
- Assessment of the Group as a going concern
- Timing and measurement of revenue recognition
- Valuation of the embedded derivative

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

1.7 Other Accounting Policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements. In addition, changes to accounting policies are set out in Note 24.

Notes to the Consolidated and Company Financial Statements

Section II: Revenue and Expenses

2. Revenue and Other income

An analysis of the Group's revenue and Other income is as follows:	2020 $'000	2019 $'000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	2,368	2,954
Support services	1,588	1,490
Royalties	743	348
	4,699	**4,792**
Other income		
Grant receipts – research and development incentives	56	100
Cash flow boost- COVID-19 incentive	69	-
	125	**100**
	4,824	**4,892**

Timing of revenue recognition	2020 $'000			2019 $'000		
	At a point in time	**Over time**	**Total**	**At a point in time**	**Over time**	**Total**
Revenue from Contracts with Customers						
Licence fees, design, development and supply of wireless communications technology	2,368	-	**2,368**	2,954	-	**2,954**
Support services	-	1,588	**1,588**	-	1,490	**1,490**
Royalties	743	-	**743**	348	-	**348**
	3,111	**1,588**	**4,699**	**3,302**	**1,490**	**4,792**
Other income						
Grant receipts – research and development Incentives	-	56	**56**	-	100	**100**
Cash flow boost- COVID-19 incentive	69	-	**69**	-	-	**-**
	3,180	**1,644**	**4,824**	**3,302**	**1,590**	**4,892**

Revenue recognition accounting policies

The Group recognises revenue in accordance with IFRS 15 Revenue from Contracts with Customers, and Clarifications to IFRS 15- Revenue from Contracts with Customers (IFRS 15).

Many of the Group's contracts comprise a variety of performance obligations including, but not limited to, supply of hardware, software licences including royalties, installation/integration services and support services.

The Group evaluates the separability of the promised goods or services based on whether they are 'distinct'. A promised good or service is 'distinct' if both:

- the customer benefits from the item either on its own or together with other readily available resources, and

Notes to the Consolidated and Company Financial Statements

- it is 'separately identifiable' (ie the Group does not provide a significant service integrating, modifying or customising it).

To determine whether to recognise revenue, the Group follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligation(s) are satisfied

The Group enters into transactions involving a range of the Group's products and services, for example for the delivery of hardware, software and related services. In such cases, the total transaction price for a contract is allocated amongst the various performance obligations based on their relative stand-alone selling prices.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as Deferred revenue in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Licence fees and revenue from the sale of goods

Revenue from the sale of goods, including manufactured equipment sales and white labelled equipment sales, is recognised at a point in time when the performance obligations are satisfied.

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

Rendering of services

Services include wireless technology design, customisation and integration services.

Depending on the circumstances of the agreement and the performance obligations identified within the contract, revenue from these services may be recognised either on a time-and-materials basis as the services are provided or where the Group enters into a contract for a fixed fee, the related revenue will be recognised over time. Revenue is recognised over time as the asset does not have an alternative use and the Group has a right to receive payment for work to date. To determine when and to what extent revenue can be recognised on a fixed fee arrangement, the Group measures its progress towards satisfaction of the performance obligation by comparing actual time spent to date with the total estimated time.

Revenue from support contracts

Revenue from support contracts is recognised evenly over the period of the support contract as the customer receives and consumes the benefit as the Group performs support.

Royalties

Royalties that are sales or usage based are recognised at a point in time at the later of when the sale or usage occurs or the performance obligation is satisfied. Minimum royalty commitments are recognised as Royalty revenue when licences are granted as these are not dependent on sales or usage.

Government grants

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

Key Judgements: revenue recognition

Judgement may be required in determining the timing and measurement across all revenue streams at contract commencement, in unbundling revenues and assigning revenue to separate and distinct deliverables or in estimating costs to complete.

3. Segment information

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

Geographical information

Revenue from external customers by region	**2020 $'000**	**2019 $'000**
Country/region of domicile		
North America	1,894	2,441
Australia and New Zealand	1,959	1,708
Japan, UK and other countries	846	643
	4,699	**4,792**

Non-current assets by region		
Country/region of domicile		
United Kingdom	3,473	3,155
North America	21	5
Australia, New Zealand and other countries	574	254
	4,068	**3,414**

Revenues from a single customer amounting to more than 10% of Group revenue	**2020 $'000**	**2019 $'000**
Customer A	960	1,188
Customer B	688	663
Customer C	557	-
	2,205	**1,851**

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

Notes to the Consolidated and Company Financial Statements

4. Group operating profit/(loss)

This is stated after charging/(crediting):

	2020 $'000	2019 $'000
Depreciation of property, plant and machinery	33	25
Depreciation of Right-of-use-assets	120	118
Operating lease costs	169	184
Foreign exchange Losses /(Gains)	(127)	180
Finance costs - interest on loans and convertible notes	116	279
Finance costs – interest on leased assets	33	42
Inventory costs charged to costs of sales	719	413
Amortisation and impairment of intangible assets:		
Amortisation of intangible assets	1,183	1,523
Impairment of intangible assets	-	90
Amortisation and impairment of intangible assets - Total	1,183	1,613

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:

	2020 $'000	2019 $'000
Grant Thornton UK LLP		
Fees payable to the company auditors for the audit of the company's annual accounts	137	97
Fees payable to the company's auditors and its associates for other services		
Audit of the accounts of subsidiaries	30	30
Audit related assurance services	31	28
Tax compliance services	6	6
Tax advisory services	5	15
	209	**176**

Notes to the Consolidated and Company Financial Statements

6. Staff costs and Directors' emoluments

a) Staff costs	2020 $'000	2019 $'000
Wages and salaries	3,065	2,666
Social security costs	160	136
Pension costs	33	124
	3,258	**2,926**

$Nil share-based payments included in wages and salaries for the current year (2019: $nil).

The staff costs set out above include $1,080 (2019 $864) which have been capitalised in accordance with the accounting policies outlined in Note 9.

The average number of employees during the year was:

	2020 Number	2019 Number
Executive Directors	1	1
Engineering	17	15
Management, sales & administrative	8	9
	26	**25**

b) Directors' emoluments	2020 $'000	2019 $'000
Emoluments	401	369
Amounts paid to third parties	-	-
	401	369
Pension costs	6	5

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

	2020 Number	2019 Number
The number of directors who are accruing benefits under:		
Defined contribution schemes	2	2

Employee benefits and retirement benefits - Accounting policies

Short-term employee benefits

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

Long-term employee benefits

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

Notes to the Consolidated and Company Financial Statements

Liabilities for long service leave expected to be settled more than 12 months from the balance date are also recognised in the provision for long service leave and consider expected employee service periods, and salary increases and are measured at a discounted amount based upon estimated settlement dates.

Employee benefit on-costs

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

Payments to defined contribution retirement benefit schemes

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

7. Finance Costs

	2020 $'000	2019 $'000
Related party loans (see Note 22)	64	66
Convertible Notes	62	138
Interest-Leased assets	33	42
Other interest (net)	(10)	75
Revaluation and amortisation of embedded derivative (net)	2,216	16
	2,365	**337**

8. Taxation

(a) Tax (credited)/charged in the statement of comprehensive income.	**2020 $'000**	**2019 $'000**
Current income tax:		
UK corporation tax and income tax	(310)	(251)
Foreign tax	41	24
Current income tax benefit	(269)	(227)
Amounts under /(over) provided in previous years	(52)	98
Tax (income)/expense in the statement of comprehensive income	**(321)**	**(129)**

	2020 $'000	2019 $'000
The tax (income)/expense in the statement of comprehensive income is disclosed as follows:		
Income tax (income)/expense on continuing operations	(321)	(129)

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 19% (2019: 19%). The differences are reconciled below:

Notes to the Consolidated and Company Financial Statements

	2020 $'000	2019 $'000
Loss before income tax	(2,621)	(1,000)
Tax at the UK corporation tax rate of 19% (2019: 19%)	(498)	(190)
Expenses not deductible for tax purposes	20	45
Tax losses not recognised	(242)	(398)
Losses surrendered	451	366
Difference in overseas tax rates	25	(23)
Deferred tax liability	(26)	(27)
Amounts under /(over) provided in previous years	(51)	98
Total tax (benefit)/expense in the statement of comprehensive income	(321)	(129)

(b) Deferred tax liabilities/(assets)	1 January 2020	Recognised in Profit & Loss	31 December 2020
	$'000	**$'000**	**$'000**
Deferred tax liability re customer contract intangible	40	(26)	14
Deferred tax asset	-	-	-
	40	(26)	14

Accounting policies

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

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

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

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

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

Notes to the Consolidated and Company Financial Statements

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

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

Unrecognised tax losses

The Group has tax losses in the United Kingdom of $11,404 (2019 $11,232) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. No deferred tax asset has been recognised in respect of losses carried forward as it is not considered probable that these will reverse in the near future. No deferred tax liability is recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries as the Group is able to control the timings of the reversal of these temporary differences.

Income tax incentives

There has been a significant income tax benefit realised by the Group in 2020 and 2019 as a consequence of research and development activities by UK resident companies in the Group. The benefit is recognised in the year in which the research and development activities are undertaken. There may be judgement required in determining the likely benefit to be received. Eligible expenditure gives rise to enhanced tax deductions which has created tax losses. Under current legislation, a portion of these losses may be surrendered in return for cash refunds. The tax effect of losses surrendered in 2020 were $451 and in 2019 were $366.

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 2019	19,614	431	808	353	21,206
Additions	1,205	-	-	-	1,205
Disposals	-	-	-	-	-
Exchange differences	-	-	(6)	-	(6)
At 31 December 2019	20,819	431	802	353	22,405
Additions	1,401	-	-	-	1,401
Exchange differences	1	-	79	-	80
At 31 December 2020	22,221	431	881	353	23,886
Accumulated amortisation					
1 January 2019	16,214	368	566	353	17,501
Charge for the year	1,400	27	96	-	1,523
Impairment	90	-	-	-	90
Exchange differences	-	-	(4)	-	(4)
At 31 December 2019	17,704	395	658	353	19,110
At 1 January 2020	17,704	395	658	353	19,110
Charge for the year	1,073	17	93	-	1,183
Impairment	-	-	-	-	-
Exchange differences	-	-	77	-	77
At 31 December 2020	18,777	412	828	353	20,370
Carrying amount					
At 31 December 2020	**3,444**	**19**	**53**	**-**	**3,516**
At 31 December 2019	**3,115**	**36**	**144**	**-**	**3,295**

Notes to the Consolidated and Company Financial Statements

Intangible assets accounting policies

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

Research and development expenditure

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

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

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

These criteria are assessed on a project by project basis from the outset and continuing through to project completion. This assessment requires management judgement to determine whether the criteria are met, which is often reliant on expectations of future events in particular potential customer contracts and technical feasibility assessments in project management reports.

Internally-generated intangible assets have a finite useful life, and are amortised on a straight-line basis over that useful life, determined as the shorter of 6 years or the estimated delivery model. Where material research and development expenditure is incurred to increase the functionality or performance of an existing asset and thereby extends the useful commercial life of the existing asset, this additional expenditure is capitalised and amortised over the shorter of 3 years and the estimated useful life. Amortisation of the asset begins when development is complete and the asset is available for use, such that it can be deployed to customers. During the period of development, the asset is tested for impairment annually.

Acquired Customer relationships

Intangible assets classified as customer relationships are recognised when acquired as part of a business combination and are measured initially at fair value. Customer relationships are amortised on a straight line basis over the estimated period over which benefits are derived from the Acquired Customer Relationship. For the purpose of impairment testing, Acquired Customer Relationship assets are allocated to a cash-generating unit.

Business combinations and goodwill

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

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

Notes to the Consolidated and Company Financial Statements

Engineering software

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

Impairment testing of intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. In addition, a line by line assessment of individual assets is undertaken for assets that no longer meet the recognition criteria under IAS 38 or have been otherwise abandoned. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life and an intangible asset not yet ready for use are 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.

As part of the impairment testing at each balance sheet date, the Group assesses the number of cash-generating units in operation. This assessment is based upon how management monitors operations and makes decisions about continuing or disposing of assets and operations. In 2020, all assets have been considered to be part of one cash-generating unit (2019 one cash-generating unit).

Intangible Assets: Significant judgements

Capitalisation and recoverability of Development costs

During the year, the Group recognised internally-generated intangible assets totalling $1,401 (2019 $1,205). Significant judgement is required in assessing whether development costs met the conditions for capitalisation as set out in the Group's accounting policy.

Impairment Testing

The Group performed its impairment test as at reporting date. The Group considers the relationship between its market capitalisation and its book value, and the intentions to proceed with planned and in progress developments amongst other factors when reviewing for indicators of impairment. The outcome of this 2020 review is a $Nil (2019 $90) impairment adjustment.

Following the impairment of assets, if any, which no longer satisfy criteria for continued recognition, the remaining value of intangible assets in the CGU is reviewed for impairment. The recoverable amount of the CGU has been determined based on a value in use calculation using cashflow projections from detailed financial forecasts prepared by management extrapolated to cover a 6 year period. 6 years has been selected as this is the estimated useful life of these assets and is therefore considered to be an appropriate period to assess the cashflows to be used in an impairment assessment. The outcome of this review was that no impairment adjustment was required.

Notes to the Consolidated and Company Financial Statements

The key assumptions are:

- Revenues are based upon the budget for financial year 2021. For subsequent years a growth rate of nil is assumed in the financial models from the base year 2021 budget. The expectation is for positive growth over the medium and longer term however noting that revenues are volatile for the company and throughout the industry and in the interests of producing a conservative model an assumption of no growth has been made and cashflows beyond 6 years have been excluded.
- Constant gross margins have been assumed. No efficiency or productivity improvements have been built into the projections.
- Pre-tax discount rate of 18%.

Management has considered the sensitivity of the value in use calculation to changes in assumptions in particular changes to the discount rate and earnings (EBITDA). A 1% increase in the assumed discount rate creates a $211 decrease in the value in use. There is no impairment required by a 1% change in the assumed discount rate. A 1% to 10% decrease in assumed earnings creates a $76,000 to $763,000 decrease in the value in use. There is no impairment required by a 1 to 10% decrease in the assumed earnings.

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

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

10. Subsidiary undertakings	**Company 2020 $000**	**Company 2019 $000**
Subsidiary undertakings at cost	7,311	7,311
Less impairment provision	(7,311)	(7,311)
	-	-

The Company's investments at 31 December 2020 in the share capital of other companies comprises:

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

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

Notes to the Consolidated and Company Financial Statements

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

Accounting policies: Investments in subsidiaries

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

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

Significant judgement: Impairment adjustment

There is no impairment adjustment in 2020 however, in the prior year, an impairment adjustment of $2,660 was recognised. Etherstack plc is a holding company and the listed vehicle within the Group. Operating subsidiaries have incurred losses requiring Etherstack plc, as the parent company, to review the carrying value of the investments in these operating subsidiaries.

11. Property, plant and equipment (Group)

	Leasehold property improvements $'000	Furniture and equipment $'000	Computer equipment $'000	Total $'000
Cost				
At 1 January 2019	27	127	317	471
Additions	-	-	18	18
Disposals	-	-	-	-
Exchange differences	(1)	2	7	8
At 31 December 2019	26	129	342	497
Additions	-	32	36	68
Exchange differences	3	9	19	31
At 31 December 2020	29	170	397	596
Accumulated depreciation				
At 1 January 2019	26	120	282	428
Charge for the year	-	2	23	25
Disposals	-	-	-	-
Exchange differences	-	2	7	9
At 31 December 2019	26	124	312	462
Charge for the year	-	5	28	33
Exchange differences	3	8	17	28
At 31 December 2020	29	137	357	523
Carrying amount				
At 31 December 2020	**-**	**33**	**40**	**73**
At 31 December 2019	**-**	**5**	**30**	**35**

Accounting policy:

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

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

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

12. Inventories

	2020 $'000	2019 $'000
Work in Progress	580	417
Slow moving stock provision	(262)	(262)
	318	**155**

Accounting policy

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

13. Trade and other receivables

	Group		Company	
	2020 $'000	2019 $'000	2020 $'000	2019 $'000
Current				
Trade debtors	581	1,249	5	4
Accrued Income from contracts in progress	173	121	-	-
Other debtors	328	242	15	14
Research and development incentives	328	258	-	-
	1,410	**1,870**	**20**	**18**
Non-current				
Accrued Income from contracts in progress	404	-	-	-
Amounts receivable from Group undertakings	-	-	13,179	8,969
Less: Impairment	-	-	(935)	(935)
	404	**-**	**12,244**	**8,034**

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

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

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

The average credit period taken on sales of goods is 27 days (2019: 21). No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Group reserves its right to charge interest at various rates on the outstanding balance. The Group recognises, where appropriate, an allowance for expected credit losses.

Due to the nature of the Group's business, potential customers tend to have sound credit status. Before accepting a new customer, the Group assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project. There are 3 (2019: 3) customers who each represent more than 5 per cent of the total balance of trade receivables.

Notes to the Consolidated and Company Financial Statements

SECTION IV: LIABILITIES

14. Financial Liabilities

	Group		Company	
(a) Trade and other payables	**2020 $'000**	**2019 $'000**	**2020 $'000**	**2019 $'000**
Current				
Trade payables and accruals	845	609	38	30
Other payables	1,549	1,596	157	223
Other taxes and social security costs	366	262	-	-
	2,760	**2,467**	**195**	**253**
Non-current				
Trade payables and accruals	-	-	-	-
Trade and other payables-Total	**2,760**	**2,467**	**195**	**253**
(b) Borrowings				
Current				
Convertible notes at amortised cost	107	-	107	-
Embedded derivative at fair value	126	-	126	-
Other loans	572	1,262	617	1,269
	805	**1,262**	**850**	**1,269**
Non-current				
Convertible notes at amortised cost	-	1,097	-	1,097
Embedded derivative at fair value	-	320	-	320
	-	**1,417**	**-**	**1,417**
Borrowings -Total	**805**	**2,679**	**850**	**2,686**
(c) Lease liabilities				
Current				
Lease liabilities	145	108	-	-
	145	**108**	**-**	**-**
Non-current				
Lease liabilities	112	130	-	-
	112	**130**	**-**	**-**
Lease liabilities -Total	**257**	**238**	**-**	**-**

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

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

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

Notes to the Consolidated and Company Financial Statements

Convertible notes

On 31 December 2019, 1,290,323 convertible notes were converted into fully paid ordinary shares of the Company and 1,690,323 of the Notes were redeemed by the note holders.

On 27 August 2019, the Company raised AUD $2 million (USD 1.398 million) from the issue of Convertible Notes. The key terms of the issue are set out below:

- The Notes are Convertible at the note holders' option at any time prior to maturity, being 2 years after the date of issue.
- The Convertible Notes may be repaid prior to maturity. Early repayment within 12 months of the issue date is possible if the Company and the Convertible Note holder agree. Early repayment later than 12 months after the issue date is possible at the option of Etherstack plc
- The Convertible Notes shall convert into ordinary fully paid shares in the capital of Etherstack plc at a conversion price of AUD$0.30. Up to 6,666,667 fully paid ordinary shares may be issued.
- The Convertible Notes are unlisted

On 30 June 2020 and 1 July 2020 all of these Convertible notes were converted into 6,666,667 fully paid Ordinary shares.

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

- The Notes are Convertible at the note holders' option at any time prior 22 August 2021.
- The Convertible Notes may be repaid prior to maturity. Early repayment within 12 months of the issue date is possible if the Company and the Convertible Note holder agree. Early repayment later than 12 months after the issue date is possible at the option of Etherstack plc
- The Convertible Notes shall convert into ordinary fully paid shares in the capital of Etherstack plc at a conversion price of AUD$0.30. Up to 499,377 fully paid ordinary shares may be issued.
- The Convertible Notes are unlisted

These convertible notes remain on issue at 31 December 2020.

Other loans

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

Notes to the Consolidated and Company Financial Statements

15. Deferred Revenue

	Group	
	2020	**2019**
	$'000	**$'000**
At 1 January	1,332	1,176
Deferred during the year	2,584	2,355
Released to the income statement during the year	(2,172)	(2,199)
At 31 December	**1,744**	**1,332**
Current	**1,641**	**1,248**
Non-current	**103**	**84**

16. Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets

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

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and fixed-term deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash.

Convertible notes

Convertible notes include an equity conversion right which is an embedded derivative. The embedded derivative is recorded separately and measured at fair value through profit and loss while the Convertible notes are recognised as a financial liability of the Group and measured at amortised cost.

Other financial liabilities

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

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

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Group has funded itself through share issues, convertible note issues and cash generation from the business. The capital structure of the Group consists of equity attributable to equity holders of the Parent, comprising issued capital, reserves and retained profits as disclosed in notes 18 and 19 and the Statement of Changes in Equity.

Externally imposed capital requirement

The Group is not subject to externally imposed capital requirements

Fair Value Hierarchy

There is one financial liability measured at fair value at 31 December 2020 (2019: one). The financial liability represented the fair value of the embedded derivative contained in the Convertible Notes. This financial liability is $126 (2019 $320) and the valuation is categorised as Level 3 – Valuation technique.

Categories of financial instruments

	Group: Carrying value		Company: Carrying value	
	2020	2019	2020	2019
	$'000	$'000	$'000	$'000
Loans and receivables measured at amortised cost				
Cash and cash equivalents	4,180	931	4	-
Trade and other receivables	1,486	1,612	12,244	8,034
	5,666	**2,543**	**12,248**	**8,034**
Financial liabilities at amortised cost				
Convertible note at amortised cost	107	1,097	107	1,097
Current borrowings at amortised cost	572	1,262	617	1,269
Trade and other payables	2,394	2,205	195	253
	3,073	**4,564**	**919**	**2,619**
Financial liabilities at Fair value through profit and loss (FVTPL)				
Embedded derivative at FVTPL	126	320	126	320

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 2020	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade payables and accruals	-	845	-	-	-	845
Related party loans	-	-	572	-	-	572
Other payables	-	1,549	-	-	-	1,549
Convertible notes	-	-	233	-	-	233
	-	**2,394**	**805**	**-**	**-**	**3,199**

Notes to the Consolidated and Company Financial Statements

Group: Year ended 31 December 2019	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**>5 Years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade payables and accruals	-	609	-	-	-	609
Related party loans	-	-	1,262	-	-	1,262
Other payables	-	1,596	-	-	-	1,596
Convertible notes	-	-	-	1,417	-	1,417
	-	**2,205**	**1,262**	**1,417**	**-**	**4,884**

Company: Year ended 31 December 2020	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade payables and accruals	-	38	-	-	-	38
Related party loans	-	-	617	-	-	617
Other payables	-	157	-	-	-	157
Convertible Notes	-	-	233	-	-	233
	-	**195**	**850**	**-**	**-**	**1,045**

Company: Year ended 31 December 2019	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Trade payables and accruals	-	30	-	-	-	30
Related party loans	-	-	1,269	-	-	1,269
Other payables	-	223	-	-	-	223
Convertible Notes	-	-	-	1,417	-	1,417
	-	**253**	**1,269**	**1,417**	**-**	**2,939**

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 2020 (2019 $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.

Notes to the Consolidated and Company Financial Statements

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:

		2020 $'000	2019 $'000
Trade and other receivables	- Current (Note 13)	1,410	1,870
	- Non-Current (Note 13)	404	-
Cash and cash equivalents		4,180	931
		5,994	2,801

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and at year end the trade receivables are assessed on an individual basis for any expected credit losses. The expected credit loss for trade and other receivables is $nil (2019 $nil).

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

The Company's exposure to credit risk is limited to the amounts advanced to subsidiary companies $13,179 (2019 $8,969). The Company assesses the recoverability of these receivables by reference to the cash flow forecast prepared for assessing the recoverable amount of the intangible assets and judgements of the probability of defaults and the loss in the event of default.

Liquidity risk management

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

Foreign currency risk

The Group operates in the United Kingdom, Europe, North America, Australia, and Japan and has transactional currency exposures arising from sales or purchases that are denominated in a currency other than the respective functional currencies of the Group entities. The Group and Company also have trade and other receivables and trade and other payables denominated in foreign currencies; and also hold cash and cash equivalents denominated in foreign currencies for working capital purposes.

The Group closely monitors foreign currency risk and enters into hedging transactions when deemed necessary. No hedging transactions were entered into in 2020 (2019 $nil).

Notes to the Consolidated and Company Financial Statements

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

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

		Group		Company	
	Change in GBP rate	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**	**Effect on (loss)/profit before tax $'000**	**Effect on equity $'000**
2020	+10%	(575)	(169)	598	598
	-10%	575	169	(598)	(598)
2019	+10%	(571)	(210)	531	531
	-10%	571	210	(531)	(531)
	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**
2020	+10%	517	252	562	562
	-10%	(517)	(252)	(562)	(562)
2019	+10%	(8)	(179)	33	33
	-10%	8	179	(33)	(33)

17. Leases

Right-of-use assets

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

	Group	
	2020	**2019**
	$'000	**$'000**
Current	128	92
Non-current	75	84
Total	**203**	**176**

Lease liabilities

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

Notes to the Consolidated and Company Financial Statements

	Group	
	2020	**2019**
	$'000	**$'000**
Current	145	109
Non-current	112	130
Total	**257**	**239**

The Group has leases for offices in Australia and Japan. With the exception of short-term leases and leases of low-value underlying assets, leases are reflected on the balance sheet as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of Group sales) are excluded from the initial measurement of the lease liability and asset. The Group classifies its right-of-use assets in a consistent manner to its property, plant and equipment.

Each lease generally imposes a restriction that, unless there is a contractual right for the Group to sublet the asset to another party, the right-of-use asset can only be used by the Group. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases of office buildings, the Group must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Group must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognised on balance sheet:

Right-of-use asset	Number of Right-of-use assets leased	Range of remaining lease term	Average remaining lease term	No. of leases with extension options	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Office building	2	1.5 years	1.5 years	2	0	1	0

The lease liabilities are secured by the related underlying assets. Future minimum lease payments at 31 December 2020 were as follows:

	Within 1 year	1-2 years	After 2 years
31 December 2020			
Lease payments	172	118	-
Interest charges	(27)	(6)	-
Net present values	**145**	**112**	**-**

Notes to the Consolidated and Company Financial Statements

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

	Carrying amount	Depreciation expense	Impairment
31 December 2020			
Office buildings	202	120	-

SECTION V: SHARE CAPITAL

18. Called up share capital

	Company 2020 $'000	Company 2019 $'000
Issued, allotted and fully paid		
129,580,125 (2019: 112,975,636) ordinary shares of 0.4p each	739	652

During 2020 there were the following shares issues:

- On 17 February 2020 516,129 fully paid ordinary shares were issued on settlement of Convertible Notes and accrued interest liabilities.
- On 30th June 2020 3,333,334 fully paid ordinary shares were issued and 1st July 2020 a further 3,333,333 fully paid ordinary shares were issued on conversion of Convertible Notes.
- On 25 August 2020 800,000 fully paid ordinary shares were issued as a consequence of employee options being exercised.
- On 24 December 2020 8,620,693 fully paid ordinary shares were issued as a result of a capital raise via placement.

On 31 December 2019 1,290,323 fully paid ordinary shares were issued on conversion of Convertible Notes.

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

19. Reserves

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

Merger Reserve

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

Share Premium Account

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

Foreign currency translation reserve

The Group foreign currency translation reserve represents exchange differences arising from the translation of the financial statements of foreign operations whose functional currencies are different from that of the

Notes to the Consolidated and Company Financial Statements

Group's presentation currency. The company foreign currency translation reserve was created as part of the Group reorganisation on 19 March 2012.

20. Share based payments

The Group has an equity settled share option scheme. Details of the share options outstanding during the year are as follows:

	Number of share options	2020 Weighted average exercise price (AUD)	Number of share options	2019 Weighted average exercise price (AUD)
Outstanding at beginning of year	2,900,000	0.10	2,900,000	0.10
Granted during the year	-		-	
Forfeited during the year	-		-	
Exercised during the year	(800,000)		-	
Outstanding at the end of the year	2,100,000	0.10	2,900,000	0.10
Exercisable at the end of the year	2,100,000		2,900,000	

During the year, 800,000 options were exercised.

There were 3,000,000 options issued on 10 August 2016. 2,900,000 of these options were fully vested, have an exercise price of AUD$0.10 and expire on 10 August 2026.

The options outstanding at 31 December 2020 had a weighted average exercise price of AUD 0.10 (2019 AUD 0.10), and a weighted average remaining contractual life of 5.6 years (2019: 6.6 years).

The Group recognized total expenses of $nil (2019 $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. 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.

Notes to the Consolidated and Company Financial Statements

21. Earnings/(Loss) per share

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

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

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

	2020		2019	
Reconciliation of earnings used in the calculation of earnings per share	**Basic $'000**	**Diluted $'000**	**Basic $'000**	**Diluted $'000**
Net profit/ (loss) attributable to equity holders of the parent for basic earnings	**(2,300)**	**(2,300)**	**(871)**	**(871)**
Net profit/ (loss) attributable to equity holders of the parent adjusted for the effect of dilution	**(2,300)**	**(2,300)**	**(871)**	**(871)**
	'000	'000	'000	'000
Weighted average number of ordinary shares for basic earnings per share	117,253	117,253	111,689	111,689
Options*	-	2,181	-	1,692
Weighted average number of ordinary shares adjusted for the effect of dilution	**111,689**	**119,434**	**111,689**	**113,381**
Earnings/ (Loss) per share (cents)	**(1.96)**	**(1.96)**	**(0.78)**	**(0.78)**

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

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

Notes to the Consolidated and Company Financial Statements

Section VI: Other Notes

22. Related party transactions

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

Remuneration of key management personnel

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

	2020 $'000	2019 $'000
Short-term employee benefits	581	550
Post-employment benefits (defined contribution schemes)	23	22
	604	**572**

Loans to/ from related parties

The Company has provided its subsidiaries with loans at 5% (2019 5%) interest rates. The Company provided loans to its subsidiaries and, at balance date, an amount of $13,179 (2019 $8,969) 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 $436 (2019 $451) of operating expenses were paid for by Group companies.

Directors and Director-related entities

David Deacon is a director of the company. During the year:

- Net repayment of $28 (2019 advance to company of $6) was made by the company.
- Interest accrued in the period is nil.

At 31 December 2020, $174 remains owing to David Deacon. The loan amount due being $174 (31 December 2019 $187) represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Peter Stephens is a director of the company. During the year:

- Loans of $Nil (2019 $33) were advanced and $245 repayments were made.
- Opted to convert Convertible notes into equity of $Nil (2019 $262)
- Interest of $62 (2019 $64) was accrued for the year.
- Interest of $Nil (2019 $20) was accrued on Convertible notes held.

At 31 December 2020, $876 (2019 $1,017) is owing to Peter Stephens. The loan of $230 is unsecured, not subject to specific repayment terms and bears interest is at 10% pa. The remainder of the amount due being $646 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

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

- Loans of $Nil (2019 $36) were advanced and $36 (including $13 interest on loan) repayments were made.
- Interest of $2 (2019 $2) was accrued for the year.

At 31 December 2020, $275 (2019 $281) is owing to Paul Barnes. The amount due being $275 represented by deferred wages and expenses is unsecured, not subject to specific repayment terms and interest free.

Notes to the Consolidated and Company Financial Statements

Other related parties

In 2018 the consolidated entity entered into formal, short term, interest bearing loan agreements with a wholly owned subsidiary of iSignthis Ltd of which Mr Scott Minehane is a director. At 31 December 2018 an amount of $228 was payable. This was repaid in January 2019 in accordance with the terms of the agreement.

The transactions were completed at arm's length. There were no further transactions in 2019 and no transactions in 2020.

LEXGP LLP, an incorporated Limited liability partnership registered in the UK of which Paul Barnes is a director and shareholder has provided certain payroll support services to the Group in the year. The services totalled $3 (2019 nil) and were provided under arm's length terms and conditions. At 31 December 2020 $Nil (2019 $nil) was due to LexGP LLP.

Notes to the Consolidated and Company Financial Statements

23. Reconciliation of borrowings arising from financing activities

Group	Current $'000	Non-current $'000	Total $'000
At 1 January 2020	**1,262**	**1,417**	**2,679**
Cash-flows:			
Repayments of loan	(556)	-	(556)
Non-cash:	-	-	-
Interest on borrowings	56	-	56
Amortisation of convertible notes	2	76	78
Revaluation of Embedded derivative	115	2,120	2,235
Convertible notes converted into equity	(103)	(3,593)	(3,696)
Exchange difference	29	(20)	9
At 31 December 2020	**805**	**-**	**805**
At 1 January 2019	**1,967**	**-**	**1,967**
Cash-flows:			
Proceeds of convertible note issues	-	1,398	1,398
Repayments of loan	(549)	-	(549)
Non-cash:			
Interest on convertible notes	45	93	138
Interest on borrowings	69	-	69
Amortisation of convertible notes	162	-	162
Revaluation of Embedded derivative	(108)	(38)	(146)
Convertible notes converted into equity	(263)	-	(263)
Reclassification	(98)	(39)	(137)
Exchange difference	37	3	40
At 31 December 2019	**1,262**	**1,417**	**2,679**

Company	Current $'000	Non-current $'000	Total $'000
At 1 January 2020	**1,269**	**1,417**	**2,686**
Cash-flows:			
Repayments of loan	(522)	-	(522)
Non-cash:			
Interest on borrowings	56	-	56
Amortisation of convertible notes	2	76	78
Revaluation of Embedded derivative	115	2,120	2,235
Convertible notes converted into equity	(103)	(3,593)	(3,696))
Exchange difference	33	(20)	13
At 31 December 2020	**850**	**-**	**850**
At 1 January 2019	**1,730**	**-**	**1,730**
Cash-flows:			
Proceeds of convertible note issues	-	1,398	1,398
Repayments of loan	(308)	-	(308)
Non-cash:			
Interest on convertible notes	45	93	138
Interest on borrowings	69	-	69
Amortisation of convertible notes	162	-	162
Revaluation of Embedded derivative	(108)	(38)	(146)
Convertible notes converted into equity	(263)	-	(263)
Reclassification	(98)	(39)	(137)
Exchange difference	40	3	43
At 31 December 2019	**1,269**	**1,417**	**2,686**

Notes to the Consolidated and Company Financial Statements

24. Changes in accounting policy and disclosures

The group has adopted IFRS 16 Leases and IFRIC 23 Uncertain tax positions in the prior financial year. IFRS 16 has a significant impact on the Group's results and financial position.

New standard IFRS 16 Leases adopted by the Group
The group has adopted IFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adaptation of IFRS 16
On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 14%.

	2019 $000
Operating lease commitments disclosed as at 31 December 2018	350
Discounted using the lessee's incremental borrowing rate of at the date of initial application	(106)
Lease liability recognised as at 1 January 2019	**244**
Of which are:	
Current Lease liabilities	51
Non-current lease liabilities	193
	244

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no other right-of-use assets recognised.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by $295,000
- trade and other payables– decrease by $42,000
- lease liabilities – increase by $351,000

The net impact on retained earnings on 1 January 2019 was a decrease of $14,000.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Notes to the Consolidated and Company Financial Statements

The Group's leasing activities and how these are accounted for

The Group leases various offices. Rental contracts are typically made for fixed periods of 3 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Until the 2018 financial year, leases were classified as either finance or operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentives receivable
- variable lease payments that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Extension and termination options are included in a number of property leases across the group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Potential future cash outflows of $415 have not been included in the lease liability because it is not reasonably certain that the leases will be extended (or not terminated).

Notes to the Consolidated and Company Financial Statements

IFRIC 23 Uncertain tax positions

The Group adopted IFRIC 23 from 1 January 2019. The interpretation clarifies how to apply the recognition and measurement requirements of IAS 12 'Income Taxes' in circumstances where uncertain tax treatments exist. The interpretation requires:

- the Group to determine whether each uncertain tax treatment should be treated separately or together, based on which approach better predicts the resolution of the uncertainty;
- the Group to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates, measuring the tax uncertainty based on either the most likely amount or the expected value.

In making the assessment it is assumed that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations.

IFRIC 23 was adopted using the modified retrospective approach and as such comparatives have not been restated.

There was no material impact on the financial statements following adoption of this interpretation.

Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

At the date of authorisation of these financial statements, several new, but not yet effective, Standards and amendments to existing Standards, and Interpretations have been published. None of these Standards or amendments to existing Standards have been adopted early by the Group.

Management anticipates that all relevant pronouncements will be adopted for the first period beginning on or after the effective date of the pronouncement. New Standards, amendments and Interpretations not adopted in the current year have not been disclosed as they are not expected to have a material impact on the Group's financial statements.

25. Events after balance date

After balance sheet date the group companies have entered into two significant contracts with customers:

- Etherstack Pty Ltd has entered into a subcontract with EOS Defence Systems Pty Ltd, a member of the Electro Optic Systems Holdings Limited (ASX: EOS) group, to supply services in relation to a project with the Australian Department of Defence. The value of services to be provided under the contract is approximately $385 which the Company expects will be fully recognised in FY2021.
- Etherstack Wireless Ltd, will provide Samsung a license to existing technology for the purposes of assisting integration of the joint solution aimed at the telecommunications carrier market, as previously disclosed in the Global Teaming Agreement announcement to the ASX in June 2020. This contract will generate US$1.2m in revenue however this does not represent a sale of the solution to an end carrier customer, but instead is related to ongoing development and integration activities between the companies.

ASX additional information

Shareholdings

The issued capital of the Company as at 3 March 2021 is 129,580,125 fully paid ordinary shares.

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

Ordinary

Range	Total Holders	Number of shares	% of Issued capital
1 - 1,000	849	435,972	0.3%
1,001 – 5,000	920	1,366,832	1.1%
5,001 – 10,000	208	1,663,068	1.3%
10,001 – 100,000	206	6,410,505	4.9%
100,001 and over	57	119,703,748	92.4%
Total	2240	129,580,125	100.0%

As at 3 March 2021 there were 652 shareholders holding less than a marketable parcel of AUD $500.

Substantial shareholders as at 3 March 2021

As at 20 March 2021 there were 3 shareholders who held a substantial shareholding within the meaning of the Corporations Act. A person has a substantial holding if the total votes that they or their associates have relevant interests in is five per cent of more of the total number of votes.

	No of shares	% of issued capital
MR DAVID DEACON	48,241,850	37.2%
MR PETER STEPHENS	17,382,587	13.4%
MR PAUL BARNES	6,850,000	5.3%
	72,474,437	55.9%

ASX additional information

Top 20 shareholders as at 3 March 2021

		No of shares	% of issued capital
1	MR DAVID ANDREW DEACON	48,241,850	37.2%
2	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	23,508,194	18.1%
3	MR PAUL BARNES	6,850,000	5.3%
4	NATIONAL NOMINEES LIMITED	3,942,826	3.0%
5	MR BILL EASON	3,566,129	2.8%
6	VERONICA STEPHENS	3,500,000	2.7%
7	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD <DRP A/C>	2,249,463	1.7%
8	MR ANDREW SCOTT	2,056,670	1.6%
9	LACHMAC PTY LTD	2,000,000	1.5%
10	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	1,982,477	1.5%
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,318,124	1.0%
12	MR PETER STEPHENS	1,290,323	1.0%
13	UBS NOMINEES PTY LTD	1,103,749	0.9%
14	GIGA PALACE LIMITED	1,909,994	1.5%
15	IN-Q-TEL INC	998,675	0.8%
16	CITICORP NOMINEES PTY LIMITED	974,902	0.8%
17	MS CARRIE LARISSA HORNBECK	935,000	0.7%
18	MR JEREMY JON DAVIES	909,000	0.7%
19	RT HON JAMES NETHERTHORPE	787,500	0.6%
20	ADROIT BY NATURE PTY LTD <JORDELLA FAMILY A/C>	630,856	0.5%
	TOTAL	**108,755,732**	**83.9**

Limitations on the Acquisition of Securities

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

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

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

Independent auditor's report to the members of Etherstack plc

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 26, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.
Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

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

We understood how Etherstack plc is complying with those legal and regulatory frameworks by making enquiries of management, those responsible for legal and compliance procedures. We corroborated our enquiries through our review of board minutes, meeting of minutes with Audit Committee and correspondence received from regulatory bodies and review of legal and professional expense ledger.

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

- We enquired of management about all the laws and regulations which are required to be complied by the group and based on our enquiry they are required to comply the following laws and regulations:
  - Etherstack is incorporated in the UK and has adopted International accounting standards in conformity with the requirements of the Companies Act 2006
  - Etherstack is also required to comply with Australian Corporation Law, employment law, Income tax law, Goods and service tax (GST) act, health and safety regulations, data protection act/GDPR, consumer credit licensing, modern slavery act and equivalent in the respective countries of operation.
- We understand from management that the finance team ensures compliance with all the laws and regulations. Management review compliance with laws and regulation on a regular basis. They have a compliance schedule to ensure completeness of all compliance obligations.
- As Etherstack is listed on the Australian Securities Exchange (ASX) and therefore is required to comply with the Corporate Governance and ASX Listing Rules. We assessed whether Etherstack is in conformity with this framework.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by meeting with management from different parts of the business to understand where it is considered there was a susceptibility of fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

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19 March 2021

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ASX Limited
20 Bridge Street
SYDNEY NSW 2000

31 December 2020 financial statements of Etherstack plc (ESK)

The attached 31 December 2020 financial statements are authorised for release to the ASX.

Authorised by

David Carter

David Carter
Chief Financial Officer & Company Secretary