Etherstack plc
and controlled entities

Appendix 4D

Half Year report under ASX listing Rule 4.2A.3

Half Year ended on 30 June 2015

ARBN 156 640 532	**Previous Corresponding Period: Half Year ended on 30 June 2014**

Results for Announcement to the market				**USD$'000**
Revenue from ordinary activities	Decreased	66%	to	1,152
(Loss) from ordinary activities after tax attributable to members	Increased	33%	to	(2,049)
Net (loss) attributable to members	Increased	33%	to	(2,049)

Dividends

There were no dividends declared or paid during the period (30 June 2014: $nil) and the Directors do not recommend any dividend be paid.

Explanation

All amounts are in USD$000 unless otherwise indicated

Review of operations and financial results

Revenues for the half year are $1,152 which is a decrease of 66% from the prior half year for which revenue was $3,373. While this is a disappointing result, to some degree this reflects the inherent volatility when revenues are derived from a small number of large projects. Additionally, it should be noted that cash receipts were substantially higher than revenues in the first half due to a higher than normal timing mismatch between revenue recognition and cash receipts during the period.

The main reasons for the revenue decrease are:

- Expected reduced level of activity on the Group's largest infrastructure project in Australia. In the comparative period, this project produced revenue of $1,736 compared to $548 in the first half of this year. As planned, there was no equipment deployment income in the first half of 2015. The rollout is conducted over a number of stages and the number of sites deployed in any half year can vary significantly depending on the stage underway within the half year. The current half's revenues represent support earnings and sales of complementary radio products to this customer. The next substantial equipment deployment is expected in the second half of 2015.
- Despite a significant increase in bid activity in recent months, continued underperformance in the North American markets. As noted in the 2014 annual report this result is consistent with the results for other industry participants in North America markets and reflects lower levels of

government demand for public safety communications products in 2014. This has a direct impact on revenues and an indirect impact as royalty revenues ($63 for the half year), which are driven by sales and project activities of Etherstack technology licencees, are also reduced compared to the comparative half year ($324).

As in 2012, 2013 and 2014, the second half year revenue is expected to significantly outweigh the first half year via contracts currently under negotiation in the US market and the planned rollout of further equipment on the Group's largest infrastructure project in Australia in the second half.

The results for the half year show continued careful cost control:

- Costs of sales comprises labour and material costs and these costs have decreased from $1,526 to $602.
- Administrative costs have fallen from $2,862 to $2,515 a reduction of $347 representing 12%.

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

- The amount of costs capitalised as development costs were $859 compared to $1,290 in the first half of 2014.
- Non cash costs arising from the amortisation of the capitalised development have decreased slightly from $1,128 to $1,099 as a result of an intellectual property impairment at 31 December 2014.
- Unrealised foreign exchange gain of $221 was recognised (30 June 2014 a loss of $249).
- An income tax benefit of $338 was earned due mainly to income tax refunds.
- Legal, mediation and other costs of $385 incurred in connection with a general commercial dispute that was resolved in August 2015. No further costs are expected.

The interim financial report for the half year ended 30 June 2015 dated 27 August 2015, forms part of and should be read in conjunction with this Half Year Report (Appendix 4D). The unaudited condensed consolidated financial report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union.

Revenue and profit guidance

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

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

David Deacon, Director
27 August 2015

Etherstack plc AND CONTROLLED ENTITIES

ARBN 156 640 532

INTERIM CONDENSED FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2015

CONTENTS

DIRECTORS' REPORT

The directors present the condensed consolidated interim financial report of Etherstack plc ("the Company" or "Etherstack") and its controlled entities (together referred to as "the Group") for the half year ended 30 June 2015. All amounts are in thousands of USD, unless otherwise specified.

Directors

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

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

Principal activities

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

Review of operations and financial results

Revenues for the half year are $1,152 which is a decrease of 66% from the prior half year for which revenue was $3,373. While this is a disappointing result, to some degree this reflects the inherent volatility when revenues are derived from a small number of large projects. The main reasons for the decrease are:

- Expected reduced level of activity on the Group's largest infrastructure project in Australia. In the comparative period, this project produced revenue of $1,736 compared to $548 in the first half of this year. As planned, there was no equipment deployment income in the first half of 2015. The rollout is conducted over a number of stages and the number of sites deployed in any half year can vary significantly depending on the stage underway within the half year. The current half's revenues represent support earnings and sales of complementary radio products to this customer. The next substantial equipment deployment is expected in the second half of 2015.
- Activity on integration projects for the Group's Japanese manufacturing customers has contributed $197 compared to $139 in the comparative period.
- Despite a significant increase in bid activity in recent months, continued underperformance in the North American markets. As noted in the 2014 annual report this result is consistent with the results for other industry participants in North America markets and reflects lower levels of government demand for public safety communications products in 2014. This has a direct impact on revenues and an indirect impact as royalty revenues ($63 for the half year), which are driven by sales and project activities of Etherstack technology licencees, are also reduced compared to the comparative half year ($324).
- Support revenues have increased from around $148 in the first half of 2014 to $276 in the first half of 2015. This is predominantly attributable to continued growth in deployed network infrastructure across the Group in 2014.

DIRECTORS' REPORT Continued

As in 2012, 2013 and 2014, the second half year revenue is expected to significantly outweigh the first half year via contracts currently under negotiation in the US market and the planned rollout of further equipment on the Group's largest infrastructure project in Australia in the second half.

The Group continues to invest significantly in products which will reduce revenue volatility by reducing dependence on a small number of relatively large contracts. The Group's tactical repeater product has been very well received in the US and Australian markets with repeat orders and significant interest in the solutions. There are high hopes for this new product and the Group looks forward to announcing more customers purchasing this ground breaking product.

The 31 December 2014 annual report contained comments about cost reductions and continued prudent cost management. The results for the half year show these reductions and continued careful cost control:

- Costs of sales comprises labour and material costs and these costs have decreased from $1,526 to $602. The main cost is engineering labour costs which have fallen due to lower staffing levels relative to the comparative half year. The engineering labour scale back has been done with regard to the need to balance the longer term need to preserve the skillsets necessary to develop further technology assets and the shorter term need to deliver customer projects and improve profitability.
- Administrative costs have fallen from $2,862 to $2,515 a reduction of $347 representing 12% or 18% if amortisation costs are excluded.

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

- As a consequence of the reduced engineering staff, the amount of costs capitalised as development costs were $859, as compared with $1,290 in the first half of 2014.
- Non cash costs arising from the amortisation of the capitalised development have decreased slightly from $1,128 to $1,099 as a result of an intellectual property impairment at 31 December 2014.
- Unrealised foreign exchange gain of $221 was recognised (30 June 2014 a loss of $249). This was mainly due to the strength of the US dollar which impacted favourably against the convertible notes which are denominated in AUD and GBP.
- An income tax benefit of $338 was earned due mainly to income tax refunds.
- Legal, mediation and other costs of $385 incurred in connection with a general commercial dispute that was resolved in July 2015. No further costs are expected.

For the six months to 30 June 2015, the Group incurred a loss after tax of $2,049. This result can be compared with a loss after tax of $1,539 for the half year ended 30 June 2014 and an underlying profit of $386 for the year ended 31 December 2014 (excluding costs of an impairment charge and costs connected with a legal dispute).

The revenue outcome for the half year is below the level required to generate a profit and this level of revenue for the half year has created some short term cash pressures within the Group. In response, the Directors have raised cash for working capital, and taken further actions to reduce cash pressures created by revenue volatility by reducing dependence on large projects by:

- developing and releasing products such as the Go Box,
- increasing recurring revenues from support contracts and royalty arrangements,
- increasing sales resources in Australia and restructuring existing sales resources to better match resources and market opportunities.

DIRECTORS' REPORT Continued

Additional actions are planned which will be implemented if revenue levels are not restored to levels which generate sufficient profits and cashflows. These include further cost reduction strategies and other mitigation strategies as discussed in Note 2.1 to the accounts.

Financing activities

Within the period, there was an increase in loans from an existing shareholder of $498 to supplement working capital requirements, particularly working capital requirements, associated with Go Box production.

In August 2015 the Company raised additional working capital of $390.

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

Rounding of Amounts

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

Signed in accordance with a resolution of the directors

David Deacon, Director
27 August 2015

Independent auditor's review report

To the members of Etherstack plc

We have reviewed the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015, which comprises the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cashflows and related notes. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

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

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

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

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with the accounting policies set out in note 2, which comply with International Accounting Standard 34, Interim Financial Reporting as adopted by the European Union.

Emphasis of Matter – Going Concern

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

Grant Thornton UK LLP, Cambridge

28 August 2015

Consolidated Statement of Comprehensive Income
For the period ended 30 June 2015

	Half year ended 30 June 2015 USD $'000 (unaudited)	Half year ended 30 June 2014 USD $'000 (unaudited)
Revenue	1,152	3,373
Cost of sales	(602)	(1,526)
Gross Profit	550	1,847
Other administrative expenses	(2,515)	(2,862)
Debt subject to claim and legal fees	(385)	-
Net foreign exchange gains/(losses)	221	(249)
Group operating loss from continuing operations	(2,129)	(1,264)
Finance costs	(258)	(301)
Loss before taxation	(2,387)	(1,565)
Income tax benefit	338	26
Loss after taxation for the period attributable to the equity holders of the parent	(2,049)	(1,539)
Other comprehensive income/(loss)		
Items that may be classified subsequently to profit and loss:		
Exchange differences on translation of foreign operations	166	(155)
Total comprehensive loss for the period attributable to the equity holders of the parent	(1,883)	(1,694)

(Loss) per share attributable to the equity holders of the parent

Basic (loss) for the period (in US cents)	(6.41)	(4.81)
Diluted (loss) for the period (in US cents)	(6.41)	(4.81)

The results above relate to continuing operations.

Consolidated Statement of Financial Position
As at 30 June 2015

	Note	30 June 2015 USD $'000 (unaudited)	31 December 2014 USD $'000 (audited)
NON-CURRENT ASSETS			
Intangible assets	6	9,327	9,622
Property, plant and equipment		101	137
Trade and other receivables		150	200
		9,578	9,959
CURRENT ASSETS			
Inventories		245	179
Trade and other receivables		2,240	2,506
Cash and bank balances		282	443
		2,767	3,128
TOTAL ASSETS		12,345	13,087
CURRENT LIABILITIES			
Trade and other payables		3,952	3,654
Convertible notes	7	3,333	2,734
Borrowings		484	-
Deferred revenue		577	253
Current tax liabilities		139	150
		8,485	6,791
NON-CURRENT LIABILITIES			
Borrowings		1,180	1,166
Convertible notes	7	254	793
Deferred revenue		193	230
Deferred tax liabilities		144	169
		1,771	2,358
TOTAL LIABILITIES		10,256	9,149
NET ASSETS		2,089	3,938
EQUITY			
Share capital		205	205
Share premium account		2,282	2,282
Merger reserve		3,497	3,497
Share based payment reserve		395	361
Foreign currency translation reserve		(1,617)	(1,783)
Accumulated losses		(2,673)	(624)
TOTAL EQUITY		2,089	3,938

Consolidated Statement of Changes in Equity
For the period ended 30 June 2015

For the half-year ended 30 June 2014	**Share Capital $'000**	**Share Premium Account $'000**	**Merger Reserve $'000**	**Share Based Payment Reserve $'000**	**Foreign Currency Translation Reserve $'000**	**Retained Earnings $'000**	**Total Equity $'000**
Balance at 1 January 2014	205	2,282	3,497	361	(1,742)	1,622	6,225
Transactions with owners	-	-	-	-	-	-	-
Loss for the period	-	-	-	-	-	(1,539)	(1,539)
Other comprehensive income for the period	-	-	-	-	(155)	-	(155)
Total comprehensive income for the period	-	-	-	-	(155)	(1,539)	(1,694)
Balance at 30 June 2014 (unaudited)	205	2,282	3,497	361	(1,897)	83	4,531
For the half-year ended 30 June 2015							
Balance at 1 January 2015	205	2,282	3,497	361	(1,783)	(624)	3,938
Transactions with owners	-	-	-	34	-	-	34
Loss for the period	-	-	-	-	-	(2,049)	(2,049)
Other comprehensive income for the period	-	-	-	-	166	-	166
Total comprehensive income for the period	-	-	-	34	166	(2,049)	(1,849)
Balance at 30 June 2015 (unaudited)	205	2,282	3,497	395	(1,617)	(2,673)	2,089

Consolidated Statement of Cash Flows
For the period ended 30 June 2015

	Note	Six months 30 June 2015 USD $'000 (unaudited)	Six months 30 June 2014 USD $'000 (unaudited)
Operating loss		(2,129)	(1,264)
Adjustments for:			
Depreciation of property, plant and equipment		39	41
Amortisation and impairment of intangible assets	6	1,099	1,128
Amortisation of finance costs		5	11
Revaluation of the embedded derivative		162	(59)
Expense of the embedded derivative		34	-
(Increase)/Decrease in provision for dilapidation		(4)	30
Net foreign exchange (gains) / losses		(262)	249
Equity settled share based transactions		34	-
Operating cash flows before movements in working capital		**(1,022)**	**136**
(Increase)/Decrease in inventories		(66)	50
Decrease/(Increase) in receivables		316	(451)
Increase in payables		6	1,000
Increase in deferred revenue		287	748
Cash (used in)/ generated from operations		**(479)**	**1,483**
Tax received		890	-
Tax paid		(27)	(15)
Interest paid		(120)	(170)
Net cash flow from/(used in) operating Activities		**264**	**1,298**
Investing activities			
Capitalised development costs	6	(859)	(1,290)
Purchases of property, plant and equipment		(2)	-
Net cash flow used in investing activities		**(861)**	**(1,290)**
Financing activities			
Increase in loans from related parties	10	498	60
Net cash from financing activities		**498**	**60**
Net (decrease)/increase in cash and cash equivalents		**(99)**	**68**
Cash and cash equivalents at beginning of period		443	29
Effect of foreign exchange rate changes		(62)	(58)
Cash and cash equivalents at end of period		282	39

Notes forming part of the Condensed Consolidated Financial Statements

1. General information

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

The condensed consolidated interim financial report of the Company as at and for the six months ended 30 June 2015 comprises the Company and its subsidiaries (together referred to as 'the Group'). The principal activities of the Group throughout the period were design, development and deployment of wireless communications software and products. The principal activity of Etherstack plc (the "Company") is that of a holding company. These financial statements are presented in US$ because the Group operates in international markets and the US$ provides the most comparable currency for peer companies. All amounts are in USD and $000 unless otherwise indicated

2. Basis of preparation

The condensed consolidated interim financial report has been prepared in accordance with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to gain an understanding of the changes in the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2014.

This condensed consolidated interim financial report does not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards, (IFRS) as adopted by the European Union and should be read in conjunction with the consolidated financial statements at 31 December 2014.The condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Directors on 27 August 2015.

2.1. Going Concern

The financial statements have been prepared on a going concern basis which assumes that the Group and the Company will continue in operational existence for the foreseeable future. For the six months to 30 June 2015, the Group incurred a loss after tax of $2,049. This result can be compared with a loss after tax of $1,539 for the half year ended 30 June 2014 and an underlying profit of $386 for the year ended 31 December 2014 (excluding costs of an impairment charge and costs connected with a legal dispute). At 30 June 2015 the Group has current assets of $2,767 and trade and other payables of $3,952.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets set out in the business plan. Revenue decreased in the first half of 2015 compared to the first half of 2014 and this has led to the net liability position described above and a short term strain on cash reserves. The Directors have managed the cash position to the date of approval of these financial statements and have considered the strength of the sales pipeline, contracts in progress, royalty revenue streams over the coming 12 months. Additionally, and as evidenced in note 9, the Directors note the Company has a record of successful fund raising, if required, to support ongoing operations via capital raising, loan instruments and the continuing support of its major shareholders.

The Directors acknowledge that there can be no certainty that these revenue targets will be met or the timing of such revenues will be in line with the cash flow forecast and the directors have therefore concluded that the combination of these circumstances represent a material uncertainty that may cast significant doubt over the ability of the Group and the Company to continue as a going concern. However, after considering these uncertainties, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. Consequently, the Directors believe that it is appropriate to prepare the financial statements on a going concern basis.

The financial statements do not include the adjustments that would result if the Group and Company was unable to continue as a going concern.

Notes forming part of the Condensed Consolidated Financial Statements

2.2. Financial reporting period

The interim financial information for the period from 1 January 2015 to 30 June 2015 is unaudited. In the opinion of the Directors, the interim financial information for the period presents fairly the financial position, and results from operations and cash flows for the period in accordance with IAS 34. The accounts incorporate comparative figures for the interim period 1 January 2014 to 30 June 2014 and the audited financial year to 31 December 2014. The financial information contained in this interim report does not constitute statutory accounts as defined by section 435 of the Companies Act 2006.

The comparatives for the full year ended 31 December 2014 are not the Company's full statutory accounts for that year. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was unqualified, but included a reference to going concern issues, which the auditors drew attention to by way of emphasis, without qualifying their report and did not contain a statement under section 498(2)-(3) of the Companies Act 2006.

3. Judgements and estimates

The preparation of these condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements for the year ended 31 December 2014.

4. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial report are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2014.

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

5. Operating segments

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

Notes forming part of the Condensed Consolidated Financial Statements

6. Intangible assets

Intangible assets comprise costs incurred on the development of specific products that meet the criteria set out in IAS 38 Intangible Assets. The amortisation period for development costs incurred on the Group's software development is 6 years or over the estimated delivery model, whichever is shorter. Amortisation does not take place until the asset is fully completed.

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

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

	Capitalisation of development costs USD $'000	Engineering software USD $'000	Customer contract intangible USD $'000	Goodwill USD $'000	Total USD $'000
Cost					
At 1 January 2014	12,440	697	979	353	14,469
Additions	1,290	-	-	-	1,290
Exchange differences	-	-	62	-	62
At 30 June 2014	13,730	697	1,041	353	15,821
At 1 January 2015	14,779	697	900	353	16,729
Additions	859	-	-	-	859
Exchange differences	-	-	(55)	-	(55)
At 30 June 2015	15,638	697	845	353	17,533
Accumulated amortisation					
At 1 January 2014	2,163	388	130	-	2,681
Charge for the period	1,031	26	71	-	1,128
Exchange differences	-	-	-	-	-
At 30 June 2014	3,194	414	201	-	3,809
At 1 January 2015	6,273	505	329	-	7,107
Charge for the period	973	44	38	-	1,055
Impairment	44	-	-	-	44
Exchange differences	-	-	-	-	-
At 30 June 2015	7,290	549	367	-	8,206
Carrying amount					
At 30 June 2015	8,348	148	478	353	9,327
At 30 June 2014	10,536	283	840	353	12,012

Notes forming part of the Condensed Consolidated Financial Statements

7. Convertible Notes

	USD $'000
Amortised cost as at 1 January 2014	3,008
Interest costs	92
Amortisation of finance costs	11
Effect of foreign exchange	178
Amortised cost at 30 June 2014	3,289
Embedded derivative as at 1 January 2014	64
Fair value adjustment	(59)
Embedded derivative at 30 June 2014	5
Convertible notes	3,294

	USD $'000
Amortised cost as at 1 January 2015	3,436
Interest costs	175
Amortisation of finance costs	5
Effect of foreign exchange	(282)
Amortised cost at 30 June 2015	3,334
Embedded derivative as at 1 January 2015	91
Fair value adjustment	162
Embedded derivative at 30 June 2015	253
Convertible notes	3,587
Disclosed as:	
Current liabilities	3,333
Non-current liabilities	254
Convertible notes	3,587

At 30 June 2015 there were 3,860,000 convertible notes in issue. Each note has a nominal value of AUD$1.00 and is redeemable at the option of the Company or the holder within the first 12 months of issue if mutual consent is given, and after this time at the option of the Company.

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

Notes forming part of the Condensed Consolidated Financial Statements

Tranche 2 was partially repaid and partially rolled into Tranche 4 in December 2014 with the new arrangement comprising 320,000 notes, convertible at any time by Note holders serving a Notice on the company (giving not less than 60 days' notice) on the basis of one ordinary share for every AUD $1.20 nominal of notes held.

Any notes not converted will be redeemed on 31 December 2016 at a price of AUD $1.00 per share. The convertible notes carry an interest rate of 10% per annum, payable quarterly in arrears within five business days of 31 March, 30 June, 30 September and 31 December.

Tranche 3 comprises 540,000 convertible notes and may be converted into fully paid ordinary shares for each AUD$0.40 of nominal note held. The notes have maturity dates between 31 July 2015 and 31 January 2016. These convertible notes carry an interest rate of 8% per annum.

Fair Value

The conversion rights attached to the convertible notes represent an embedded derivative. This embedded derivative is the only financial liability measured at fair value. This financial liability as at 30 June 2015 is $253 (31 December 2014: $91). Derivative financial instruments are valued using internal models. The fair values are determined using option pricing models (Black Scholes), which use various inputs including current market prices for underlying instruments, time to expiry, current rates of return and volatility of underlying instruments. Prices are sourced from quoted market prices. Such instruments are classified within Level 3 valuation technique.

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

8. Net tangible liabilities per share	**30 June 2015 US cents**	**30 June 2014 US cents**
Net tangible liabilities per share	(22.63)	(23.39)

9. Post balance date events

Settlement of US Legal action

Settlement has been reached between Etherstack's wholly owned US subsidiary and one of its technology licensees in connection with the previously disclosed commercial dispute, subsequent legal actions and counterclaims.

The outcome of the settlement has been recognised in these financial statements.

Loans

Subsequent to 30 June 2015, the Company has borrowed an aggregate of $390 from Director related shareholders to provide additional working capital.

Notes forming part of the Condensed Consolidated Financial Statements

10. Related party transactions

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

Convertible notes

Within Tranche 1, Peter Stephens holds 250,000 convertible notes with a nominal value of AUD$250 (31 December 2014: 250) and David Deacon holds 570,516 convertible notes with a nominal value of AUD$571 (31 December 2014: 571). Interest of $9 (2014: $12) and $22 (2014 $27) accrued in the period on the convertible notes held by Peter Stephens and David Deacon respectively. Payments of $nil (2014: $9) and $8 (2014: $nil), respectively, were made in the period to each director with respect to the convertible notes.

Within Tranche 3, Paul Barnes holds 450,000 convertible notes with a nominal value of GBP 100 (31 December 2014: GBP100) and Peter Stephens holds 450,000 convertible notes with a nominal value of AUD$180 (31 December 2014: AUD$180). Interest of $5 (2014: $Nil) and $5 (2014 $Nil) accrued in the period on the convertible notes held by Paul Barnes and Peter Stephens respectively. Payments of $5 (2014: $Nil) and $Nil (2014:$Nil), respectively, were made in the period to each director with respect to the convertible notes.

Loans to/ from related parties

David Deacon, a director of the Company, is owed $765 by the Group at 30 June 2015 (31 December 2014: $723). Loans to the Group of $14 (2014: $87) and loan repayments of $2 (2014; $26) were made in the period and interest of $30 (2014: $30) accrued in the period.

This loan is denominated in AUD, is unsecured, bears interest at arms-length rates and is not due for repayment before 30 June 2016. At its option, the Company may make repayments before 30 June 2016. In addition, an entity related to David Deacon had advanced a loan to the Group. Interest of $14 (2014 $14) was accrued on this loan and $586 was outstanding at 30 June 2015 (31 December 2014: 565). This loan is unsecured, bears interest at arm's length rates and is repayable in November 2016.

In March 2015, Peter Stephens advanced a loan to the Company of GBP 300. Interest of $13 accrued on this loan. This loan is dominated in GBP is unsecured, bears interest at arm's length and is repayable in July 2016.

At 30 June 2015, the following amounts were payable to Directors of the company: David Deacon $454 (31 December 2014: $341), Peter Stephens $101 (31 December 2014: $78), Paul Barnes $113 (31 December 2014: $87) and Scott Minehane $19 (31 December 2014: $27). These are unsecured, interest free and not subject to specific repayment terms.

Other Related Parties

Beach Street Limited is a director related entity as Paul Barnes is a director and shareholder. In the half year to 30 June 2015, Beach Street Limited charged the group at arm's length rates, $nil for professional services (31 December 2014: $nil). At 30 June 2015 USD $9 (31 December 2014 $9) was owing to Beach Street Limited.

Directors' Declaration

In the opinion of the Directors:

(a) The financial statements and notes set out on pages 7 to 16:

- (i) comply with Accounting Standard IAS 34 Interim Financial Reporting
- (ii) give a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the six months ended on that date; and

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

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

David Deacon
Director

27 August 2015

Corporate Information

Company Registration No. 7951056

ARBN 156 640 532

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

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

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United Kingdom

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Auditor
Grant Thornton UK LLP
Statutory Auditor
Cambridge, United Kingdom

Stock Exchange Listing
Australian Securities Exchange
(Code: ESK)

Share Registrars
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Australia

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