

ETHERSTACK WIRELESS LIMITED

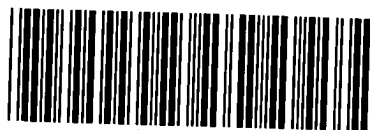
formerly Etherstack London Limited

Company Registration no. 05676080

Financial Statements For the year ended 31 December 2019



MONDAY



A98PTZFS

A05

06/07/2020

#230

COMPANIES HOUSE

ETHERSTACK WIRELESS LIMITED**FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

CONTENTS	Page
Corporate Directory	Error! Bookmark not defined.
Strategic Report	2
Directors' Report	5
Independent Auditors' report to the Members	7
Statement of Comprehensive Income	9
Statement of Financial Position	10
Statement of Changes in Equity	11
Notes to the accounts	12

ETHERSTACK WIRELESS LIMITED

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Corporate Directory

DIRECTORS

David Deacon
Paul Barnes FCCA
Peter Stephens

SECRETARY

Paul Barnes FCCA

REGISTERED OFFICE

3rd Floor
30-31 Friar Street
Reading, Berkshire
RG1 1DX

BANKERS

HSBC Bank plc
18a Curzon Street
London W1J 7LA

AUDITOR

Grant Thornton UK LLP
Chartered Accountants
Cambridge, United Kingdom

ETHERSTACK WIRELESS LIMITED

STRATEGIC REPORT

On behalf of the Board of Directors, I am very pleased to present this Strategic Report of the activities of Etherstack Wireless Limited ("Company") for 2019. All amounts are in USD \$000.

PRINCIPAL ACTIVITIES

The principal activity of the Company throughout the year was development and sales of wireless communications products. The Company also acts as an intermediate holding company in the Etherstack plc group of companies ("Group").

REVIEW OF 2019

Revenues

Revenue decreased from USD \$1,147 in 2018 to USD \$693 in 2019.

This decrease is mainly due to:

- Project related revenues decreased from \$625 in 2018 to \$346 in 2019. The 2019 revenue decrease is primarily due to reduced activity on major contracts. There was a major project in 2018 which generated \$374 in revenue which did not recur.
- Royalty revenues decreased from \$522 in 2018 to \$347 in 2019. The royalties earned by Etherstack follow the increase or decrease in sales achieved by manufacturers whose products include Etherstack technology.

Loss for 2019, Costs and other fees

The Statutory loss for the year after tax is \$1,269 for 2019 compared to a loss of \$808 for 2018. Factors that have impacted the 2019 result:

- Decreased revenue as outlined above.
- The amortisation and impairment charge in respect of Intellectual property assets increased from \$1,386 in 2018 to \$1,517 in 2019.
- Income tax credit of \$140 (2018: \$140) is predominantly derived from Research & Development incentives in the UK.

Intellectual property developments

The Company continues to invest in intellectual property assets and in the financial year Etherstack capitalised further costs of \$1,205 (2018: \$1,255) on developing its portfolio of intellectual property assets.

The Company expects to generate valuable future royalty streams from the new intellectual property from both existing technology licensee clients and new licensees under negotiation.

Key performance indicators

The primary performance indicator for the Company continues to be revenue. Current period revenue totalled \$693 (2018: \$1,147) and the key reasons total revenue has increased have been outlined above.

A second key performance indicator is recurring Royalty revenue streams. Recurring revenue for 2019 was \$347 which is a 34% decrease on 2018 revenue of \$522. This was driven by the decrease in sales achieved by manufacturers in 2019.

A third key performance indicator for the Company is the investment in the development of intellectual property assets. In the current year, the Company invested \$1,205 (2018: \$1,255) on developing its suite of intellectual property assets.

ETHERSTACK WIRELESS LIMITED

STRATEGIC REPORT

Outlook

The Company will continue to pursue revenue opportunities in its own right and support Group companies to grow their revenue streams around the world.

The company will continue to act as holding company within the Etherstack plc group. The company will continue to act as the owner of the groups Intellectual property assets and will continue to develop new intellectual property assets and enhance the existing intellectual property portfolio.

RISKS

The management of the business and the execution of the Company'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 Company are set out below.

Dependence on key contracts

Etherstack is currently dependent on a number of key contracts.

Growing the total revenue of the Company will reduce the significance of individual contracts or projects relative to the Company's total revenue. In addition, growth of royalty revenue streams stemming from products reaching commercial maturity reduces dependence on individual contracts. However the impact of individually significant contracts remains in existence at the balance sheet date.

Ability to continue as a going concern

Connected with the dependence on key contracts is the need for the Group to achieve revenue targets to generate the cash flows set out in the business plan. The adoption of the going concern basis of accounting, the consequences on cash reserves in the event that revenue targets were not met and potential mitigating actions are outlined in the Directors report.

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 utilities 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 Company 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 Company operates in different countries/regions each using their own currency. The Company's presentational currency is US\$. Therefore, Etherstack is subject to currency and foreign exchange pricing swings, which may have a positive or negative effect on the performance of the Company. General economic conditions, movements in interest and inflation rates may have an adverse effect on the Company's activities, as well as on its ability to fund those activities.

Product liability and uninsurable risk

The Company 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 Company has secured insurance to help manage such risks.

ETHERSTACK WIRELESS LIMITED**STRATEGIC REPORT*****Liquidity risk***

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

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:

- Alternative arrangements are being made for delivery of projects and to date effective workaround arrangements are in place for all projects in progress. Notwithstanding these 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 already work from home regularly and the nature of the work, being software development, means the majority can transition to full time work from home 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 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.

On behalf of the Board of Directors



Paul Barnes FCCA
Director
5 May 2020

ETHERSTACK WIRELESS LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. All amounts are in USD \$000.

1. Directors

The directors who served throughout the period and to the date of signing of this report are:

- Peter Stephens
- David Deacon
- Paul Barnes

2. Results

As noted in the Strategic Report, the Company realised a loss after tax for the year of \$1,269 (2018: loss of \$808). Revenue decreased to USD \$693 from USD \$1,147 in 2018.

3. Going Concern

The financial statements have been prepared on a going concern basis which assumes the Company will continue in operational existence for the foreseeable future. During the year, the Company reported a loss after tax of \$1,269 (2018 loss of \$808) and is in a net current liability position as at 31 December 2019.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets to generate the cash flows set out in the business plan.

The Directors have considered the financial performance of 2019, the strength of the sales pipeline, contracts in progress, royalty and support revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event revenue targets were not met or the expected revenues were delayed, then this would place a short-term strain on working capital. The directors are experienced in managing working capital in this environment and will continue to do so, should this be necessary. In addition, two shareholders have provided letters of support indicating they will provide financial assistance should it be required for the Etherstack plc Group to manage its working capital requirements and fund investments required to deliver its current business plan subject to specified limits. The Directors also note the Etherstack plc Group 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 there can be no certainty these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and this represents a material uncertainty which may cast significant doubt over the ability of the Company to continue as a going concern. The Company may therefore may be unable to realize its assets and discharge its liabilities in the normal course of business. However, after considering the material uncertainty, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Company has 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 Company was unable to continue as a going concern.

The Directors have also reconsidered their budgets, forecasts, costs and sensitivity analysis in the light of the Coronavirus epidemic and the potential impact on the Etherstack plc Group. The risks include delay in timing of revenue transactions and delay in cash receipts, difficulties in obtaining goods from suppliers and delivering projects to customers and ability of the workforce to work remotely. Given the current status of contracts and the Etherstack plc Group's customer base, as well as other mitigating factors, the Directors currently consider that the impact of Coronavirus on the Group is not likely to be significant over the medium term but does create further uncertainty (in addition to the above) which the Directors continue to monitor and manage.

ETHERSTACK WIRELESS LIMITED**DIRECTORS' REPORT****4. Directors Responsibility 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 elected to prepare the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws) including with FRS 101, "Reduced Disclosure Framework" (and applicable laws). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company 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 United Kingdom 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 Company's Auditor is aware of that information.

5. Dividend

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: \$nil).

6. Auditor

Grant Thornton UK LLP were appointed as auditors of Etherstack Wireless Limited at the Annual General Meeting in June 2019 and Grant Thornton UK LLP will be proposed for re-appointment at the next Annual General Meeting.

7. 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 Company financial statements are presented in US Dollar ("\$\$") which is the presentational currency.

By Order of the Board



Paul Barnes FCCA
Director
5 May 2020



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ETHERSTACK WIRELESS LIMITED

Opinion

We have audited the financial statements of Etherstack Wireless Limited (the 'company') for the year ended 31 December 2019, which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity 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 United Kingdom Accounting Standards, including Financial Reporting Standard 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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 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, 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.

Material uncertainty related to going concern

We draw attention to note 1.21 in the financial statements, which indicates that as at 31 December 2019 the company had net liabilities of \$8.4m and incurred a net loss of \$1.3m during the year ended 31 December 2019. The company is reliant on its parent, Etherstack plc for financial support, and in the event that revenue and cashflow targets are not met (for various reasons including the potential impact of the coronavirus epidemic) then further funding will be required. As stated in note 1.21, these conditions along with the other matters set forth in note 1.21, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual 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.

Opinions on other matters prescribed by the Companies Act 2006

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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ETHERSTACK WIRELESS LIMITED

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

In the light of the knowledge and understanding of the 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, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 5, 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 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 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.

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

Alison Seekings
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Cambridge
24 June 2020

ETHERSTACK WIRELESS LIMITED**STATEMENT OF COMPREHENSIVE INCOME****FOR THE YEAR ENDED 31 DECEMBER 2019**

	Note	31 December 2019 \$'000	31 December 2018 \$'000
Revenue	2,3	693	1,147
Cost of sales		<u>(141)</u>	<u>(451)</u>
Gross Profit		552	696
Administrative expenses		(1,443)	(1,179)
Other expenses – net foreign exchange gains/(losses)	4	<u>(17)</u>	<u>(36)</u>
Operating loss		(908)	(519)
Net Interest Payable	8	(501)	(429)
Loss before Tax		<u>(1,409)</u>	<u>(948)</u>
Income tax benefit	9	<u>140</u>	<u>140</u>
Loss after Taxation for the year		<u>(1,269)</u>	<u>(808)</u>
<i>Other comprehensive income</i>			
Items that may be classified subsequently to profit and loss:			
Exchange differences arising on foreign currency net investments		<u>(304)</u>	<u>639</u>
Total comprehensive loss for the financial year		<u><u>(1,573)</u></u>	<u><u>(169)</u></u>

All of the activities of the Company are classed as continuing.

The accompanying notes form an integral part of the financial statements

ETHERSTACK WIRELESS LIMITED**STATEMENT OF FINANCIAL POSITION****AS AT 31 DECEMBER 2019**

	Note	2019 \$'000	2018 \$'000
NON-CURRENT ASSETS			
Intangible assets	10	3,151	3,463
Property, plant and equipment	12	4	2
Investments	11	166	166
		<u>3,321</u>	<u>3,631</u>
CURRENT ASSETS			
Inventories	13	58	104
Trade and other receivables	14	298	1,157
Income tax receivable		258	183
Cash and bank balances		36	5
		<u>650</u>	<u>1,449</u>
TOTAL ASSETS		<u>3,971</u>	<u>5,080</u>
NON-CURRENT LIABILITIES			
Trade and other payables	15	<u>10,737</u>	<u>9,901</u>
		<u>10,737</u>	<u>9,901</u>
CURRENT LIABILITIES			
Trade and other payables	15	<u>1,672</u>	<u>2,044</u>
		<u>1,672</u>	<u>2,044</u>
TOTAL LIABILITIES		<u>12,409</u>	<u>11,945</u>
NET ASSETS		<u>(8,438)</u>	<u>(6,865)</u>
Capital and reserves			
Share capital	16	236	236
Share premium account		3,678	3,678
Foreign currency translation reserve		1,787	2,091
Retained earnings		(14,139)	(12,870)
TOTAL EQUITY		<u>(8,438)</u>	<u>(6,865)</u>

The financial statements of Etherstack Wireless Limited (company registration number 05676080) were approved by the Board of Directors.

Signed on behalf of the Board of Directors



Paul Barnes FCCA
Director
5 May 2020

ETHERSTACK WIRELESS LIMITED**STATEMENT OF CHANGES IN EQUITY****AS AT 31 DECEMBER 2019**

	Share Capital	Share Premium Reserve	Foreign Currency Reserve	Retained Earnings	Total Equity
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2018	236	3,678	1,452	(12,062)	(6,696)
Loss for the financial year	-	-	-	(808)	(808)
Other comprehensive Income	-	-	639	-	639
Total comprehensive income for the financial year	-	-	639	(808)	(169)
Balance at 31 December 2018	236	3,678	2,091	(12,870)	(6,865)
Loss for the financial year	-	-	-	(1,269)	(1,269)
Other comprehensive Income	-	-	(304)	-	(304)
Total comprehensive income for the financial year	-	-	(304)	(1,269)	(1,573)
Balance at 31 December 2019	236	3,678	1,787	(14,139)	(8,438)

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

1.1 Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Etherstack Wireless Limited for the year ended 31 December 2019 were authorised for issue by the Board of Directors on 5 May 2020 and the Statement of Financial Position was signed on the Board's behalf by Mr Paul Barnes. Etherstack Wireless Limited is a private limited company incorporated and domiciled in England and Wales. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101, Reduced Disclosure Framework.

The principal accounting policies adopted by the Company are set out below.

1.2 Basis of preparation

The financial statements are presented in US Dollar ("USD") which is the Company's presentational currency. The Company operates in international markets and the US Dollar provides the most comparable currency for peer companies. The exchange rate between the USD and the GBP at year end was 1.31 (2018: 1.27).

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

1.2.1 Going concern

The financial statements have been prepared on a going concern basis which assumes the Company will continue in operational existence for the foreseeable future. During the year, the Company reported a loss after tax of \$1,269 (2018 loss of \$808) and is in a net current liability position as at 31 December 2019.

The financial statements have been prepared on a going concern basis, the validity of which depends on the achievement of revenue targets to generate the cash flows set out in the business plan. Due to the group structure the going concern status is dependent on the going concern status of the Group, which is headed by the parent company Etherstack plc. The parent company has issued a letter of support to the subsidiary indicating that it will provide financial support to allow the company to meet its obligations as they fall due.

The Directors have considered the financial performance of 2019, the strength of the sales pipeline, contracts in progress, royalty and support revenue streams and cash within the Group at the date of the approval of the financial statements, and are satisfied these are sufficient to continue operations for at least 12 months from that date. In the event revenue targets were not met or the expected revenues were delayed, then this would place a short-term strain on working capital. The directors are experienced in managing working capital in this environment and will continue to do so, should this be necessary. In addition, two shareholders have provided letters of support indicating they will provide financial assistance should it be required for the Etherstack plc Group to manage its working capital requirements and fund investments required to deliver its current business plan subject to specified limits. The Directors also note the Etherstack plc Group 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 there can be no certainty these revenue targets will be met or the timing of such revenues and inflows will be in line with the cash flow forecast and this represents a material uncertainty which may cast significant doubt over the ability of the Group to continue as a going concern. The Group may therefore may be unable to realize its assets and discharge its liabilities in the normal course of business. However, after considering the material uncertainty, the Directors have a reasonable expectation that sufficient revenues and cash flows will be generated such that the Company has 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 Company was unable to continue as a going concern.

The Directors have also reconsidered their budgets, forecasts, costs and sensitivity analysis in the light of the Coronavirus epidemic and the potential impact on the Etherstack plc Group. The risks include delay in timing of revenue transactions and delay in cash receipts, difficulties in obtaining goods from suppliers and delivering projects to customers and ability of the workforce to work remotely. Given the current status of contracts and the Etherstack plc Group's customer base, as well as other mitigating factors, the Directors

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

currently consider that the impact of Coronavirus on the Group is not likely to be significant over the medium term but does create further uncertainty (in addition to the above) which the Directors continue to monitor and manage.

1.2.2 Changes in accounting policy and disclosures

The Company has not adopted any new standards or amendments that have a significant impact on the Company's results or financial position.

IFRS 16 Leases

The Company has adopted IFRS 16 retrospectively from 1 January 2019. 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. 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.

All Company leases are short term leases and hence there is no significant impact on the results or financial position as a result of adopting IFRS 16 Leases.

IFRIC 23 Uncertain tax positions

The Company has 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 Company 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 Company to consider whether it is probable that a taxation authority will accept an uncertain tax treatment; and if the Company 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.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

1.2.3 Judgements and key sources of estimation uncertainty

In the application of the Company's accounting policies, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and estimations that the directors have made in the process of applying the Company's accounting policies and have the most significant effect on the amounts recognised in the financial statements.

Capitalisation and recoverability of internally-generated intangible assets

The Company recognises an internally-generated intangible asset arising from the Company's software development only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Company intends to complete the asset and use it or sell it;
- the Company 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.

When development is carried out in conjunction with a customer project, a judgement is required in determining the allocation between capitalised development expenditure and customer specific costs. Customer specific costs are expensed as incurred.

During the year, the Company recognised internally-generated intangible assets totalling \$1,205 (2018: \$1,255).

The Directors considered the recoverability of the internally-generated intangible asset arising from the Capitalisation of development costs which is included in the balance sheet (refer Note 10) at \$3,115 (2018: \$3,400).

The review of recoverability encompasses consideration of changes to the expected cashflows 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 Company.

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.

Impairment of intangible assets and property, plant and equipment

The Company annually tests whether the intangible assets and property, plant and equipment have suffered any impairment. The Company estimates the assets' or the cash generating units' recoverable amount. In the current year, an impairment charge of \$90 was recognised (2018: \$nil).

1.3 Significant accounting policies

1.3.1 Reduced disclosure framework

These financial statements were prepared in accordance with *Financial Reporting Standard 101 Reduced Disclosure Framework*.

Etherstack Wireless Limited is a member of the Etherstack plc Group and therefore its financial statements are consolidated into the Company financial statements of Etherstack plc. The financial statements of the Etherstack plc Group for the year ended 31 December 2019 can be found in the investors section at www.etherstack.com.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

The Company has taken advantage of the following disclosure exemptions:

Standard	Specific section
IFRS 2 <i>Share-based Payment</i> IFRS 3 <i>Business Combinations</i>	the requirements of paragraphs 45(b) and 46 to 52 paragraphs 62, B64(d), (e), (g), (h), (j) to (m), (n)(ii), (o)(ii), (p), (q)(ii), B66 and B67 paragraph 33(c)
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i> IFRS 7 <i>Financial Instruments: Disclosures</i> IFRS 13 <i>Fair Value Measurement</i> IFRS 16 <i>Leases</i>	paragraphs 91 to 99 The requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 <i>Leases</i> .
IAS 1 <i>Presentation of Financial Statements</i>	paragraph 38, in respect of: (i) paragraph 79(a)(iv) of IAS 1; (ii) paragraph 73(e) of IAS 16 <i>Property, Plant and Equipment</i> ; and (iii) paragraph 118(e) of IAS 38 <i>Intangible Assets</i> ;
IAS 7 <i>Statement of Cash Flows</i> IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> IAS 24 <i>Related Party Disclosures</i>	paragraph 17 and the requirement to disclose transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member paragraphs 134(d) - (f) and 135(c) - (e)
IAS 36 <i>Impairment of Assets</i>	

1.3.2 Revenue recognition

The Company has accounts for 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 Company'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 Company 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
- it is 'separately identifiable' (ie the Company does not provide a significant service integrating, modifying or customising it).

The implementation of IFRS 15 in the prior year did not have a significant impact on the timing or amount of revenue recognised by the Company.

To determine whether to recognise revenue, the Company 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 Company enters into transactions involving a range of the Company'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 Company satisfies performance obligations by transferring the promised goods or services to its customers.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

The Company recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Company 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.

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

Licence fees and revenue from the sale of goods

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

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

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

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

Rendering of services

Services include wireless technology design, customisation and integration services.

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

Revenue from support contracts

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

Royalties

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

Dividend income

Dividend income is recognised when the right to receive payment is established.

1.3.3 Leasing

The Company has no right-of-use assets and associated lease liabilities. All leases are treated as short-term leases and leases of low-value underlying assets.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

1.3.4 Foreign currencies

In accordance with IAS 21, the Directors have considered the functional currency to be the currency which principally reflects the costs and funding structures of the business and therefore USD has been adopted as the functional currency.

In preparing these financial statements, 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 translated 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

1.3.5 Retirement benefit costs

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

1.3.6 Taxation

The tax currently payable is based on taxable profit 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 Company'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 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, as the Company 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.

No deferred tax liabilities have been recognised for taxable temporary differences arising on intangibles from capitalised development costs, as the company has sufficient tax losses for which no deferred tax asset has been recognised, such that any liability would be reduced to nil by utilisation of these losses.

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.

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 Company intends to settle its current tax assets and liabilities on a net basis.

1.3.7 Property, plant and equipment

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.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

1.3.8 Intangible assets

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 Company's software development is recognised only if all of the following conditions are met:

- an asset is created that can be identified (such as software and new processes);
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the Company intends to complete the asset and use or sell it;
- the Company 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.

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

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 annually.

1.3.9 Impairment of tangible and intangible assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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.

1.3.10 Inventories

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.

1.3.11 Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

Loans and receivables

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

Cash and cash equivalents

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

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.

The Company does not enter into any derivative transactions, and does not hold any derivative financial instruments.

1.3.12 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.

1.3.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable 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. A liability is also carried for on-costs in respect of provisions for employee benefits which attract these costs.

1.3.14 Cash and Cash equivalents

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value.

2. REVENUE

An analysis of revenue is as follows:

	2019 \$'000	2018 \$'000
Revenue from Contracts with Customers		
Licence fees, installation/integration and supply of wireless communications technology	346	625
Support services	-	-
Royalties	347	522
	<u>693</u>	<u>1,147</u>

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

Timing of revenue recognition	2019			2018		
	\$'000			\$'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	346	-	346	625	-	625
Support services	-	-	-	-	-	-
Royalties	347	-	347	522	-	522
	693	-	693	1,147	-	1,147

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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

Revenue from external customers by country	2019 \$'000	2018 \$'000
Country of domicile		
United States of America	50	317
Canada	-	374
Japan	297	223
Other countries	346	233
	693	1,147
Revenues from a single customer amounting to more than 10 percent of Company revenue	2019 \$'000	2018 \$'000
Customer A	323	374
Customer B	297	316
Customer C	n/a	223
Customer D	n/a	123

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

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

4. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

This is shown after charging/(crediting):

	2019 \$'000	2018 \$'000
Amortisation and impairment of intangible assets:		
Amortisation of intangible assets	1,427	1,386
Impairment of intangible assets	90	-
Amortisation and impairment of intangible assets - Total	1,517	1,386
Depreciation of property, plant and machinery	2	1
Operating lease costs	56	62
Foreign exchange losses (gains)	17	36

5. AUDITORS' REMUNERATION

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

	2019 \$'000	2018 \$'000
Audit of Company financial statements	30	30
Non-Audit Services		
Taxation Services	6	11

6. STAFF COSTS

	2019 \$'000	2018 \$'000
Wages and salaries	546	741
Social security costs	81	134
Pension costs	32	141
	659	1,016
Average monthly number of persons employed (including directors)	2019 Number	2018 Number
Directors	3	3
Engineering	3	6
Management, sales & administrative	1	1
	7	10

In accordance with accounting policy set out in Note 1.3.8, Staff costs may be capitalised as internally generated intangible asset.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

7. DIRECTORS' REMUNERATION

	2019 \$'000	2018 \$'000
Emoluments (including pension contributions)	85	95
The number of directors who are:	2019 Number	2018 Number
Members of a money purchase pension scheme	-	-
Remuneration of the highest paid director:	\$'000	\$'000
Emoluments	34	43
Company contributions to money purchase schemes	-	-
	34	43

8. INTEREST EXPENSE

	2019 \$'000	2018 \$'000
Interest Payables - Intercompany	(443)	(399)
Interest Payables – others	(58)	(30)
	(501)	(429)

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

9. TAX	2019 \$'000	2018 \$'000
Current income tax (income)/ expense:		
UK corporation tax and income tax	(252)	(140)
Current income tax benefit	(252)	(140)
Amounts under /(over) provided in previous years	112	-
Tax (income)/expense in the statement of comprehensive income	(140)	(140)

Corporation tax is calculated at 19% (2018: 19%) of the estimated taxable profit for the year. The charge for the year can be reconciled to the profit per the income statement as follows:

	Year ended 2019 \$'000	Year ended 2018 \$'000
(Loss) before tax on continuing operations	(1,409)	(948)
Tax at the UK corporation tax rate of 19% (2018: 19%)	(268)	(180)
Benefit of tax losses not recognised	494	321
Effect of enhanced R&D tax relief	(366)	(281)
Tax (income) for the year	(140)	(140)

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. Tax losses of \$8,209 (2018: \$7,680) are being carried forward for offset against future taxable profits of the Company. No deferred tax liability is recognised on temporary differences relating to the unremitted earnings of overseas subsidiaries as the Company is able to control the timings of the reversal of these temporary differences.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

10. INTANGIBLE ASSETS

	Capitalised Development costs \$'000	Engineering software \$'000	Total \$'000
Cost			
At 1 January 2019	19,614	427	20,041
Additions	1,205	-	1,205
At 31 December 2019	20,819	427	21,246
Accumulated amortisation			
At 1 January 2019	16,214	364	16,578
Charge for the year	1,400	27	1,427
Impairment	90	-	90
At 31 December 2019	17,704	391	18,095
Carrying amount			
At 31 December 2019	3,115	36	3,151
At 31 December 2018	3,400	63	3,463

Intangible assets comprise internal and external costs incurred on the development of specific products that meet the criteria under IAS 38 Intangible assets. The amortisation period for development costs incurred on the Company's software development is 6 years or over the estimated delivery model, whichever is shorter. Amortisation does not take place until the asset is fully completed such that it can be deployed to customers.

Impairment Testing

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

The carrying value of the capitalised development costs is assessed annually for any impairment. This assessment allocates all the development costs to a single cash generating unit (CGU). Management have assessed that the Company comprises of one CGU due to the interdependencies of the intellectual property assets. The Company estimates the assets' or all assets recoverable amount within the cash generating unit. The estimated recoverable amount is the higher of fair value less cost to sell and its value in use.

The Company performed its impairment test as at balance sheet date. The Company also considers the relationship between the market capitalisation of Etherstack plc and book value of its assets, and the intentions to proceed with planned and in progress developments amongst other factors when reviewing for indicators of impairment. The outcome of this review in 2019 is a \$90 impairment adjustment (2018: nil).

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.

The key assumptions are:

- Revenues are based upon the budget for financial year 2020. For subsequent years a growth rate of nil is assumed in the financial models from the base year 2020 budget. While the expectation is for positive growth over the medium and longer term 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.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

- 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. A 1% increase in the assumed discount rate creates a \$249 decrease in the value in use. There is no additional impairment required by a 1% change in the assumed discount rate.

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 Company.

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.

11. INVESTMENTS

	2018 \$'000	2017 \$'000
Subsidiary undertakings	166	166

The Company's investments at the balance sheet date in the share capital of other companies comprise the following:

Subsidiary undertakings	Holding	Class of share	Country of incorporation
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.

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

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

12. PROPERTY, PLANT AND EQUIPMENT

Company	Furniture and equipment \$'000	Computer equipment \$'000	Total \$'000
Cost			
At 1 January 2019	58	239	297
Additions	-	4	4
Disposals	-	-	-
Exchange differences	2	9	11
At 31 December 2019	60	252	312
Accumulated depreciation			
At 1 January 2019	57	238	295
Charge for the year	1	1	2
Disposals	-	-	-
Exchange differences	2	9	11
At 31 December 2019	60	248	308
Carrying amount			
At 31 December 2019	-	4	4
At 31 December 2018	1	1	2

13. INVENTORIES

	2019 \$'000	2018 \$'000
Stock	58	104

14. TRADE AND OTHER RECEIVABLES

	2019 \$'000	2018 \$'000
Current		
Trade receivables	143	473
Accrued income from contracts in progress	121	439
Other receivables	292	428
Amounts owed from group undertakings	-	-
	556	1,340

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

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

No interest is charged on the receivables for the first 30 days from the date of the invoice. Thereafter, the Company reserves its right to charge interest at various rates on the outstanding balance. The Company recognises, where appropriate, an allowance for doubtful debts of 100% against certain receivables over

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

180 days since historical experience has been that receivables that are past due beyond 180 days tend not to be recoverable.

Due to the nature of the Company's business, potential customers tend to be well-funded international companies of sound credit status. Before accepting a new customer, the Company assesses the likely credit risk of the potential customer principally by reference against the complexity and nature of the project.

There were \$5 debtors over 30 days as at 31 December 2019 (2018: 20).

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

15. TRADE AND OTHER PAYABLES

	2019 \$'000	2018 \$'000
Current		
Trade payables and accruals	398	692
Other payables	1,195	1,064
Other taxes and social security costs	79	288
	<u>1,672</u>	<u>2,044</u>
Non-Current		
Amounts owed to group undertakings	10,737	9,901
	<u>10,737</u>	<u>9,901</u>

Amounts owed to Group undertakings are unsecured and not subject to specific repayment terms. Interest is charged at arm's length rates on these balances.

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. For most suppliers no interest is charged on the trade payables for the first 45 days from the date of the invoice. Thereafter, interest is charged on the outstanding balances at various interest rates.

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

16. CALLED UP SHARE CAPITAL

	2019 Number	2018 Number
Authorised		
Ordinary shares of £0.10 each	2,500,000	2,500,000
	<u>2,500,000</u>	<u>2,500,000</u>
	2019 \$'000	2018 \$'000
Called up, allotted and fully paid		
1,184,327 ordinary shares of £0.10 each (2018:		
1,184,327 ordinary shares of £0.10 each)	236	236
	<u>236</u>	<u>236</u>

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

17. RESERVES

Details of movements in reserves are included in the Company Statement of changes in equity.

Share Premium Reserve

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

18. OPERATING LEASES

The Company has no right-of-use assets and associated lease liabilities. All leases are treated as short-term leases and leases of low-value underlying assets.

	2019	2018
	Land and buildings \$'000	Land and buildings \$'000
Minimum lease payments under operating leases Recognised as an expense in the year	30	30

At 31 December 2019 the Company had total commitments under non-cancellable operating leases as set out below:

	2019	2018
	Land and buildings \$'000	Land and buildings \$'000
Operating leases which expire		
Within 1 year	13	30
In the second to fifth years inclusive	-	13
	13	43

19. FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when the Company 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 Company'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.

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

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 Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders. The Company has no third party debt and has funded itself through share issues, cash generation from the business and loans the parent company, Etherstack plc.

Externally imposed capital requirement

The Company is not subject to externally imposed capital requirements.

Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognized, in respect of each class of financial asset, financial liability and equity instrument are disclosed in the financial statements.

Categories of financial instruments

Financial assets	2019	2018
	\$'000	\$'000
Cash and cash equivalents	36	5
Trade and other receivables (Net of allowances)	298	1,157
	<u>334</u>	<u>1,162</u>
Financial liabilities		
Trade creditors and other creditors at amortised cost	12,330	11,657

The table below summarises the maturity profile of the Company's financial liabilities based on undiscounted payments:

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 creditors	-	398	-	-	-	398
Related party loans	-	-	-	10,737	-	10,737
Other creditors	-	1,195	-	-	-	1,195
	<u>-</u>	<u>1,593</u>	<u>-</u>	<u>10,737</u>	<u>-</u>	<u>12,330</u>
Year ended 31 December 2018	On demand	Less than 3 months	3 to 12 months	1 to 5 years	>5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade creditors	-	692	-	-	-	692
Related party loans	-	-	-	9,901	-	9,901
Other creditors	-	1,064	-	-	-	1,064
	<u>-</u>	<u>1,756</u>	<u>-</u>	<u>9,901</u>	<u>-</u>	<u>11,657</u>

ETHERSTACK WIRELESS LIMITED

NOTES TO THE ACCOUNTS

Financial risk management objectives

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

The Company may use derivative financial instruments to hedge these risk exposures. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Market risk

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

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

Credit risk management

Credit risk refers to the risk a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company 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 Company's exposure is continuously monitored.

Trade receivables consist of a number of customers, spread across geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable. The Company does not have any significant credit risk exposure to any single counterparty or any Company of counterparties having similar characteristics. The Company defines counterparties as having similar characteristics if they are connected entities.

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

Liquidity risk management

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

20. CONTROLLING PARTY

The Company is a wholly owned subsidiary of Etherstack plc. The financial statements are publicly available from Companies House.

21. EVENTS AFTER THE END OF THE REPORTING PERIOD

Since 31 December 2019, the consequences of the COVID-19 outbreak have materially and adversely disrupted the global economic situation. The Company is taking appropriate action to monitor, address and mitigate the uncertainties and increased risks facing the Company as a result and have taken these additional uncertainties into account in assessing the going concern position.