19 August 2021

ETHERNITY NETWORKS LTD

("Ethernity" or the "Company" or the "Group")

Interim results for the six months ended 30 June 2021 and Update

Ethernity Networks Ltd (AIM: ENET.L), a leading supplier of programable networking solutions utilising patented and innovative network processing technology ported on FPGA (field programmable gate array) for virtualised networking appliances, today announces its interim results for the six months ended 30 June 2021 and provides the following Company update.

Ethernity provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks. Ethernity's programmable networking solutions that utilise FPGAs, offer complete Carrier Ethernet Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimise telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and NFV (network functions virtualisation).

Financial summary

- Revenues increased by 165.8% to $955,371 over the comparable period (H1 2020: $359,375)
- Gross margin increased by 91.1% to $605,852 over the comparable period (H1 2020: $316,982)
- Gross margin percentage declined to 63.42% (H1 2020: 88.20%) due to increased revenues from product sales with lower margins as opposed to the ~100% margins from licensing and royalties revenues
- Research and Development, General and Administrative, and Marketing expenses increased by 6.8% over previous period due mainly to return to normal operations from the COVID-19 cut backs
- EBITDA loss remained consistent with the previous period, increasing by 2.1% to $2,473,686 (H1 2020 comparable adjusted EBITDA loss: $2,422,574)
- Operating loss increased by 1.0% over the comparable period
- The cash resources during the period under review were further bolstered following additional investment of £1.8m ($2.5m) from the Share Subscription Agreement and £1.0m ($1.46m), including support from the Directors, from the exercise of the 30p Warrants originally issued as part of the placing in July 2020.

Company Strategy

The Company is operating in the competitive Telecom industry and is focused on innovative, differentiated offerings related to the 5G router appliance, so as to allow Ethernity to stand out from other standard offerings available in the market. The Directors believe that the current signed contracts and orders received and expected, along with the many other ongoing customer discussions, show that our differentiated, unique and value-added system solutions can capture significant interest in this open RAN market. With our main goal of becoming a supplier of customised and differentiated system solutions as compared to the legacy model of FPGA code licensing, which we have achieved by offering not just the FPGA code, but also the software application and complete system solution, we have elevated our offerings in the value chain. This focused and comprehensive strategy allows us to capture multiple times more revenue per unit as compared to that which can be derived from only selling FPGA code.

Whilst historically most of the Company's principal revenues have been generated from licensing and royalties, in H1 2021, and as evidenced in the results, we saw a change in the mix towards recurrent product revenue streams and the related margin percentages.

With this strategy and our goals of being a solutions provider in mind, the Company intends to focus most of its R&D resources toward delivering complete system solutions as opposed to FPGA code licensing deals, which consume R&D resources but produce only short term revenues and jeopardise our ability to focus on completing the system solutions that are the core of our growth plan.

As we move towards becoming a supplier of system solutions that include FPGA, FPGA routing firmware, add-on differentiated features and complete software applications, during 2021, the Company has not progressed certain FPGA licensing opportunities that are not in line with our system solutions focus. We will continue to focus on opportunities that are aligned with our 5G router activities and its variants, to preserve the R&D resources for future growth versus short-term FPGA code licensing deals.

Operational highlights

During H1 2021 our activities have progressed in multiple domains:

- With Xilinx, who supply the FPGA device used by Ethernity along with procurement from other sources, we have succeeded in securing supply for the majority of FPGAs required for 2021 so as to fulfill our FPGA SoC orders.
- $400,000 order received for our ENET FPGA SoC for point to multi-point fixed wireless platforms. Further to this order the Company has received further orders resulting in total orders received to-date of $2.0m. We are hopeful these orders will increase with further engagements through the customer's product deployment and introduction.
- $2.0m in orders from a Fixed Wireless Access provider to supply the Company's ENET FPGA SoC.

5G and DU Router

The Company is now fully focused on supporting the systems contracts signed for our 5G Router offering including our growing demand for our DU with vRouter offload, that are anticipated to generate the change to being a system solutions provider from 2022 onwards as further detailed below and therefore differentiate this from other licensing activities.

- 5G Router solution:

  Ethernity's 5G router offers a unique proposal to the market as it is populated on a programmable platform (FPGA-based) that allows us not only to provide basic routing, but further proposes a differentiated function that provides answers to the ever-changing market requirements without the need to fabricate new hardware based on the same device. This is in alignment with the trend towards virtualisation that utilises programmable CPUs instead of rigid hardware.

  By following this strategy the Company has succeeded in capturing significant momentum for its standalone FPGA-based Universal Edge Platform (UEP) as well as for the ACE-NIC for both DU Router-on-NIC and for UPF.

  The significant contract signed with an Indian OEM during Q4 2020 was the first system-level contract that included delivery of the complete offering of system ingredients including hardware, FPGA and application software. The Customer has completed fabrication of the first product (UEP-60), and there is growing interest from large service providers for this product. This product will include the same FPGA code and software application save for minor changes in hardware configuration, that is applicable for two larger customer contracts we have, including the new UEP-60 contract of $930,000 signed on 30 July 2021, which includes integrated wireless bonding and more importantly the DU Router-on-NIC. As detailed below, this is the same system offering as in the UEPs, but runs on a standard network adapter server card, allowing the Company to focus its R&D efforts on a singular goal.

- DU's Router-on-NIC:

- Ethernity nominated for a GSM GLOMO award, demonstrating our leading technology innovation and differentiated system offerings for the open RAN market and further proving our leadership and positioning in this market.
- Gained traction from large service providers as the product offers greater savings in both operational expenses and capital expenses. Once used on a DU, it can eliminate the need for an external switch/router required at the DU location for aggregation of other DUs and for network connectivity. Further details can be found in our blog post https://ethernitynet.com/ethernitys-unique-du-proposition/.
- The Company believes that its vRouter offload for DU that was initially introduced to the market by Ethernity, has the potential to become a standard requirement for large DU open RAN-based deployment.

- 5G router with integrated wireless bonding:
  - The Company was granted a patent for a new wireless bonding technology. On a practical level this patent enables Ethernity to overcome operator issues with wireless transmission that is interrupted or slowed due to inclement weather. The primary applications for this patent are SD-WAN and wireless backhaul deployments.
  - Furthermore, as highlighted above, the Company announced on 30 July 2021 that it had secured a contract with a customer of $930k for a customised UEP-60 solution incorporating the integrated wireless bonding. The majority of the revenues will be recognised in 2022.
  - Following the introduction of the UEP-20 based bonding solution the Company went through different testing and interoperability with radio equipment vendors, and dependent on the vendors' success in selling their radio equipment with our UEP-20 bonding solution for currently deployed radio installations, we currently expect to obtain orders over the next 12 months for our UEP-20 to connect thousands of links, with expected revenues in the range of $800k to $1.0m.
  - We are also in ongoing discussions relating to various other UEP customised offerings and further licensing for our software and firmware with other wireless connectivity vendors.

Post-period events

On 30 July 2021 the Company announced a new contract of $930k with an international wireless connectivity vendor to supply its UEP-60 product. Over and above this initial order, there is potential for significant follow-on orders and wider product offerings. This is the second major 5G system contract, following the successful contract with the Indian OEM in Q3 2020, in Ethernity's progression of its transition to a system solutions provider.

Following a delay due to the COVID-19 outbreak in India, fabrication of the UEP-60 product has now been completed by the Indian OEM and was delivered by them to our lab for integration during August 2021. The customer has multiple engagements with operators and government agencies, and subsequent to our delivery and testing of the working product, expects significant deployment from 2022 onwards.

2021 Update and Outlook

The Board remains confident that, on the basis of the current contracts, continued increased customer engagements, focus on delivery of solutions and the anticipated customer deployments now being realised, Ethernity will meet its long-term objectives and is well positioned to become one of the key solutions providers in its marketplace. The Company continues to experience an increase in the outreach by OEMs and operators interested in Ethernity's solutions where these solutions are proving increasingly aligned with operators strategy with their customers in their marketplaces. Network service providers are requiring more flexible solutions to their technology and network needs for offloading support of new data appliances introduced by the market. Ethernity believes it has the best-in-class system solutions to address these needs.

We are pleased to note that the interest for our products is growing, including current discussions with strategic Tier-1 cloud infrastructure suppliers. However, even with orders in place, due to component shortages and the ongoing impact of COVID-19 in the areas where our contracted customers operate (specifically, in India) resulting in significantly late deliveries by our customers of their fabricated product for integration with our UEP software, which product has now finally been fabricated and delivered to the Company by the customer for integration. In light of these delays, we now expect a delayed deployment from our customers from 2021 to the first half of 2022. As a result of these delays, and the worldwide components shortages, we now expect that approximately $1.0m to $1.5m of anticipated revenues may be pushed from H2 2021 into H1 2022. Furthermore, as we focus on systems solutions in preference to licensing deals not aligned with our product deliveries, we are no longer pursuing certain licensing deals so as to focus our resources on delivering the product solutions, our main growth engine in terms of our contracts and the future product solutions business-based roadmap.

In summary, the business and engagements remain positive and intact, being primarily affected by customer and component delays. With the refocused strategy on product sales, the Board now expects 2021 full year revenues to be in a range of $3.5m to $4.5m, displaying continued significant growth over the previously reported periods.

During 2022 and beyond, the Company anticipates generating revenues from its DU Router-on-NIC and UPF, with significant year-on-year revenue growth anticipated from product orders and contracts already signed, in particular our long-term contracts for Fixed Wireless Access, UEP-60 (with further potential upside from UEP-20) and our Indian OEM contract, demonstrating positive momentum and growth from product sales. Resulting from the new contracts and orders, and notwithstanding the delays as mentioned above, the Company is satisfied that is has sufficient financial resources to meet its ongoing obligations and operating requirements for 2022.

David Levi, Chief Executive Officer of Ethernity Networks Ltd, commented:
"The first half results were in-line with our expectations, with a positive mix of product, royalties and licensing revenues. It appears that most of our engaged customers are now returning to more normalised levels of business operations and are finalising their development of new products and architecture. This is expected to lead to demand for our programmable products, and the deal flow forecasts for engagements this year remain intact. We are hopeful that these will continue to be concluded during H2 2021.

We are pleased to be continuing the evolution of the Company, with our strategy to focus on product and system revenue business versus short term licensing deals that are not in line with our system solutions. We do however foresee that delays in roll-out and deployment in India due to the COVID-19 situation along with the component shortage situation in general required for our UEPs and ACE-NIC product will defer planned Q3 and Q4 2021 revenues into the latter portions of Q1 and Q2 2022.

The product contracts already signed, the product orders received (which are expected to grow), and the good progress with our Indian OEM will all fuel our revenue growth to position us not just as a technology company, but as a validated system product supplier with differentiated offerings, resulting in growing revenue streams that will allow us to be considered for larger scale deployments."

For further information, please contact:

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MARKET ABUSE REGULATION

The information contained within this announcement is deemed by the Company to constitute inside information stipulated under the Market Abuse Regulation (EU) No. 596/2014 (as implemented into English Law). Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

OPERATIONAL AND FINANCIAL REVIEW

Over the past six month reporting period we continued with our goals and to progress our strategic transition towards diversifying the Company's offerings to include systems solutions in addition to IP licensing and services, and this has been evidenced in the accomplishments and engagements attained over the past year.

During the period under review, the Company delivered revenues of $955,371 (H1 2020: $359,375) and a gross profit of $605,852 (H1 2020 $316,982). Revenues were significantly higher than the comparable period.

The gross profit percentage decline to 63.42%, as opposed to H1 2020 of 88.2%, is as anticipated due to the different product mix within the revenue. In the past design wins and royalty revenue contributed proportionately significantly more to revenues, however the focus on being a solutions provider has resulted in the mix of revenues trending toward the supply of product with lower margins albeit higher unit sales values.

EBITDA

EBITDA, albeit it not a recognised reportable accounting measure, provides a meaningful insight into the operations of a business when removing the non-cash or intangible elements from trading results along with recognising actual costs versus some IFRS adjustments, in this case being the amortisation and non-cash items charges in operating income and the effects of IFRS 16 treatment of operational leases.

The EBITDA for the period under review for the 6 months ended 30 June 2021 is presented as follows:

EBITDA	**US Dollars**		
	For the 6 months ended 30 June		**31 December**
	2021	**2020**	**2020**
Revenues	**955,371**	**359,375**	**1,853,732**
Gross Margin as presented	605,852	316,982	1,582,279
Gross Margin %	*63.42%*	*88.20%*	*85.36%*
Operating (Loss) Profit as presented	**-3,097,078**	**-3,065,377**	**-5,088,929**
Adjusted for:			
Add back Amortisation of Intangible Assets	480,690	471,917	952,606
Add back Share based compensation charges	36,969	-15,556	18,209
Add back vacation accrual charges	-18,154	30,313	81,732
Add back depreciation charges on fixed assets	48,793	78,198	156,011
Add IFRS operating leases depreciation	75,094	77,931	155,862
EBITDA	**-2,473,686**	**-2,422,574**	**-3,724,509**

EBITDA loss in the first six months of the year was $2,473,686 (H1 2020 loss: $2,422,574), which has remained consistent with the previously reported comparable period. This loss is impacted by the reduced margin percentage. As previously stated, the margin percentage is a direct result of the revenues mix and it is anticipated that the current margin percentage levels will continue.

Operating Costs

Operating expenses (before amortisation and depreciation), increased by 6.7% in the current period against the same period in 2020 from $2,739,556 to $3,100,340 mainly within the R&D division as operating levels normalised to the pre COVID-19 levels and staff attendance returned to 100%.

General and Administration costs have also returned to normal levels as staff returned from furlough, one off COVID-19 cost reductions were no longer applicable and employee salaries returned to 100% levels.

The decline in the Marketing expenses are a direct result of the reduction in physical marketing activities and attendance at worldwide conferences and exhibitions.

After adjusting for the capitalised Research and Development Costs, amortisation costs of the Development Intangible asset, Depreciation and Share Based Compensation adjustments, the resultant increases (decreases) in Operating costs, as adjusted would have been:

Operating Costs	**US Dollars**			**Increase (Decrease) June**	**%**
	For the 6 months ended 30 June		**31 December**		
	2021	**2020**	**2020**		
Research & Development Costs, including capitalised costs, net of amortisation, Share Based Compensation and Vacation accruals	1,982,075	1,664,772	3,049,659	317,303	10.40%
General and Administrative Expenses, net of depreciation, Share Based Compensation, Vacation accruals, impairments.	642,685	520,012	1,245,082	122,673	9.85%
Marketing Expenses, net of Share Based Compensation and Vacation accruals.	475,580	554,772	1,052,382	-79,192	-7.53%
Total	3,100,340	2,739,556	5,347,123	360,784	6.75%

Summarised trading results

Net comprehensive loss for the period	**US Dollars**		
	For the 6 months ended 30 June		**31 December**
	2021	**2020**	**2020**
Revenues	**955,371**	**359,375**	**1,853,732**
Gross Margin	605,852	316,982	1,582,279
Gross Margin %	*63.42%*	*88.20%*	*85.36%*
Operating (Loss) Profit	**(3,097,078)**	**(3,065,377)**	**(5,088,929)**
Financing costs	(1,419,468)	(22,136)	(1,462,740)
Financing income (expenses)	116,597	177,916	298,016
(Loss) Profit before tax	(4,399,949)	(2,909,597)	(6,253,653)
Tax benefit (reversal of previous deferred tax benefit)	0	0	0
Net comprehensive (loss) income for the period	**(4,399,949)**	**(2,909,597)**	**(6,253,653)**
Basic and Diluted earnings per ordinary share	**-0.09**	**-0.09**	**-0.17**
Weighted average number of ordinary shares for basic earnings per share	**51,347,822**	**32,673,455**	**36,590,988**

Revenue Analysis

Revenues for the 6 months ended 30 June 2021 increased by 165.8% to $955,371 (2020: $359,375). This result is a positive reflection of the upward trend anticipated due to the increased customer engagements and contacted demand and deployment of the Company's solutions.

The revenue mix will continue to evolve as the Company progresses in achieving the desired mix of the revenue streams from network solutions in addition to IP licenses and services.

Segment Reporting

The geographic mix is represented by the makeup of the products supplied, where in the first half of the current financial year the revenues were weighted towards foreign design wins while royalty revenues were earned in Israel. The trend is expected to continue during the second half of the year as design wins and product supply focussing on the Tier-1 OEMs outside of Israel continues to grow.

SEGMENT REPORT SECTOR ANALYSIS						
Region	**Six months ended 30 June 2021**		**Six months ended 30 June 2020**		**Year ended 31 December 2020**	
	US$	**%**	**US$**	**%**	**US$**	**%**
United States	765,075	80.1%	227,520	63.3%	1,256,613	67.8%
Israel	161,796	16.9%	121,855	33.9%	262,119	14.1%
Asia	28,500	3.0%	10,000	2.8%	335,000	18.1%
Total	**955,371**	**100.0%**	**359,375**	**100.0%**	**1,853,732**	**100.0%**

Margins

Gross margins were line with Company expectations based on the product sales strategy focus, with the 2021 gross margin for the period being 63.4% as compared to 88.2% in the same period for 2020. As always, the gross margin will vary according to the revenue mix.

As the revenue mix as noted above evolves, this will have a downward pressure on gross margin percentages as revenues from ~100% margin sources become less prominent in the mix, being replaced by cost active product sales.

Financing Costs

As noted in the Annual Results for the year ended 31 December 2020, the significant increase in financing costs has come about due to the two equity events referred to below and under the section "Balance Sheet".

It is to be noted that these two equity events, albeit in essence based on raising funds via equity issues, are nonstandard equity arrangements and have been dealt with in terms of the guidance in IFRS9–Financial Instruments. This guidance, albeit that it is not based on the actual cash cost of the financing arrangements to the Company, is significantly complex in its application, forces the recognition of the fair value of the equity issues, and essentially creates a recognition in differences between the market price of the shares issued at time of issue versus the actual price at which the equity is allotted. It is not a reflection of the cash inflows and outflows of the transactions. It is this differential or "derivative style instrument" that needs to be subject to a fair value analysis, and the instruments, the values received and outstanding values due being separated into equity, assets, finance income and finance charges in terms of the IFRS-9 guidance.

Referring to the two fundraise deals the Company completed during the year of 2020 being;

a. Issuance of the Share and Warrants bundle (Peterhouse Capital Limited)
b. Share Subscription Agreement (5G Innovation Leaders Fund)

It has been determined that in terms of IFRS-9, both transactions are to be recognised as equity and a liability of the Company and all adjustments to the liability value are to be recognised through the Income Statement. In both cases the equity differential based on allotment price and fair value at time of allotment charges to the income statement.

The liability in respect of deal a. above represents the outstanding 30p Warrants which had not been exercised as of 31 December 2020 and were finalised and closed by the end of May 2021.

The liability in respect of deal b. represents the cash advances the Company has received during 2020 and to 30 June 2021 and as of 30 June 2021 still has not allotted shares against the advances in settlement of the debt.
The above outlined treatment results in a significant finance expense charged to the Income Statement, however it should be noted that the expense is not an actual cash expense, rather an expense due to the accounting treatment and recognition of an expense instead of an asset in terms of IFRS guidance.

The Finance income is the mirror image to the above and relates to the 880,000 “Allotment Shares” the Company issued in advance as part of the Share Subscription Agreement, the cash payment for which the Company received in April of 2021 being £256,766 ($356,443). The increase in value of the asset, being the increase in the value of the Allotment Shares at the time of allotment versus the value at settlement date is recognised as finance income in the Income Statement.

The Financing Expenses and Finance Income in the Income Statement are thus summarised as follows:

<table>
<tr><td colspan="3">Financing expenses for period ending June 30 2021</td></tr>
<tr><td colspan="3">5G Innovation Leaders Fund
The Company has received three additional tranches during the period from 1 January 2021 to 30 Jun 2021, being £400K (3rd tranche), £400K (4th tranche) and £750K (5th tranche). The below expenses are split between the tranches as well as general expenses which relate to the entire funding deal and allotment of shares.</td></tr>
<tr><td>3rd Tranche</td><td>$52,627</td><td>Face value premium of £38,000 for third tranche (£400K)</td></tr>
<tr><td rowspan="2">4th Tranche</td><td>$52,926</td><td>Face value premium of £38,000 for fourth tranche (£400K)</td></tr>
<tr><td>$9,885</td><td>Remaining liability from 4th tranche as of June 30 2021 has been adjusted to Fair Value, the adjustment is recognised as finance expenses.</td></tr>
<tr><td rowspan="2">5th Tranche</td><td>$102,191</td><td>Face value premium of £73,500 for 5th tranche (£750K)</td></tr>
<tr><td>$25,360</td><td>Liability from 5th tranche as of June 30 2021 has been adjusted to Fair Value, the adjustment is recognised as finance expenses.</td></tr>
<tr><td rowspan="3">General expenses</td><td>$182,795</td><td>Upon share allotment of 1,805,054 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.</td></tr>
<tr><td>$648,972</td><td>Upon share allotment of 2,033,898 shares, the Company adjusted liability which was extinguished to Fair Value right before allotment. The adjustment portion is recognised as finance expenses.</td></tr>
<tr><td>$58,236</td><td>Initial finance fees for entire deal of $90K are being amortizing throughout the entire deal term. During the first 6 months of 2021 the Company expensed 64.7% of the $90K Prepaid Finance Expenses to finance expenses</td></tr>
<tr><td>Total 5G Fund</td><td>$1,132,992</td><td></td></tr>
<tr><td>Peterhouse Capital</td><td>$262,035</td><td>The liability in respect of the 30p Warrants was adjusted to Fair Value right before the exercise which took place during the period. This adjustment portion is recognised as a finance expense.</td></tr>
</table>

Financing Income for the period ending June 30 2021

5G Innovation Leaders Fund	**$49,723**	Recording adjustment to cash due for the 880,000 "Initial Shares", valued at 29.20p per share which is the conversion price at settlement date. Asset is worth more at date of payment then it was on allotment, and therefore the increase in value is recorded as finance income.

The cash resources during the period under review were further bolstered following further investment from the Share Subscription Agreement of £1.8m (approximately $2.5m) and the successful completion and closing from the July 2020 Placing of the 30p Warrants in May 2021 raising £1.05m (approximately $1.45m) including support from the Directors

COVID-19 IMPACT AND GOING CONCERN

Currently, with the impact of COVID-19 in Israel having been reduced significantly the Company has resumed its planned strategies including the enhancement of the development resources. We remain acutely aware of COVID-19 showing not only increases in Israel but the situation in the geographies that we trade and have development engagements, specifically in India and Taiwan, and as such realise the risk of an impact in delays in the timing of revenues as well as delays in supplies not only to the Company but its customers, whose product deployment could be materially impacted. Without modifying their opinion of the Company remaining a going concern, the Directors, following good practice reporting from the previously audited financial statements, make reference to the existence of a material uncertainty in relation to going concern, drawing attention to Note 3 of the Interim Unaudited Financial Statements enclosed in this announcement.

Other than the points outlined above, there are no items on the Balance Sheet that warrant further discussion outside of the disclosures made in the Interim Unaudited Financial Statements presented below.

FORWARD LOOKING STATEMENTS

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements. Any forward-looking statements in this announcement reflect Ethernity's view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Ethernity undertakes no obligation to publicly revise any forward-looking statements in this announcement, following any change in its expectations or to reflect events or circumstances after the date of this announcement.

By order of the Board

Mark Reichenberg
Company Secretary
19 August 2021

Interim Unaudited Financial Statements
as at 30 June 2021

STATEMENTS OF FINANCIAL POSITION

	US dollars		
	30 June		31 December
	2021	2020	2020
	Unaudited		Audited
ASSETS			
Current			
Cash and cash equivalents	3,442,309	547,104	2,180,726
Trade receivables	769,919	284,688	778,061
Inventories	255,269	169,033	173,494
Other current assets	290,103	176,924	626,690
Current assets	**4,757,600**	**1,177,749**	**3,758,971**
Non-Current			
Property and equipment	516,611	459,767	552,112
Deferred tax assets	186,772	186,772	186,772
Intangible asset	6,904,870	7,866,249	7,385,560
Right-of-use asset	199,160	370,150	292,219
Other long term assets	10,338	7,507	7,507
Non-current assets	**7,817,751**	**8,890,445**	**8,424,170**
Total assets	**12,575,351**	**10,068,194**	**12,183,141**
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	253,988	50,923	411,726
Trade payables	508,434	148,471	290,175
Liability related to share subscription agreement	1,619,509	-	841,944
Warrants liability	-	-	286,253
Other current liabilities	1,002,185	1,192,324	1,275,849
Current liabilities	**3,384,116**	**1,391,718**	**3,105,947**
Non-Current			
Lease liability	59,403	227,259	146,130
Non-current liabilities	**59,403**	**227,259**	**146,130**
Total liabilities	**3,443,519**	**1,618,977**	**3,252,077**
Equity			
Share capital	14,910	8,079	12,495
Share premium	31,759,125	23,410,070	27,197,792
Other components of equity	850,225	779,491	813,256
Accumulated deficit	(23,492,428)	(15,748,423)	(19,092,479)
Total equity	**9,131,832**	**8,449,217**	**8,931,064**
Total liabilities and equity	**12,575,351**	**10,068,194**	**12,183,141**

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF COMPREHENSIVE LOSS

		US dollars		
		Six months ended 30 June		For the year ended 31 December
		2021	2020	2020
	Note	Unaudited		Audited
Revenue	7	955,371	359,375	1,853,732
Cost of sales		349,519	42,393	271,453
Gross profit		**605,852**	**316,982**	1,582,279
Research and development expenses		2,496,084	2,136,215	4,037,904
General and administrative expenses		779,149	685,590	1,591,079
Marketing expenses		448,499	560,554	1,082,560
Other income		(20,802)	-	(40,335)
Operating loss		**(3,097,078)**	**(3,065,377)**	**(5,088,929)**
Financing costs	5	(1,419,468)	(22,136)	(1,462,740)
Financing income	6	116,597	177,916	298,016
Loss before tax		**(4,399,949)**	**(2,909,597)**	**(6,253,653)**
Tax expense		-	-	-
Net comprehensive loss for the period		**(4,399,949)**	**(2,909,597)**	**(6,253,653)**
Basic and diluted loss per ordinary share		**(0.09)**	**(0.09)**	**(0.17)**
Weighted average number of ordinary shares for basic and diluted loss per share		51,347,740	32,673,455	36,590,988

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF CHANGES IN EQUITY

	Amounts in US dollars (except number of shares)					
	Number of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2021 (Audited)	**47,468,497**	**12,495**	**27,197,792**	**813,256**	**(19,092,479)**	**8,931,064**
Employee share-based compensation	-	-	-	36,969	-	36,969
Exercise of employee options	226,667	71	23,041	-	-	23,112
Exercise of options	3,500,010	1,072	2,007,606	-	-	2,008,678
Shares issued pursuant to share subscription agreement	3,838,952	1,176	2,447,346	-	-	2,448,522
Expenses paid in shares	305,000	96	83,340	-	-	83,436
Net comprehensive loss for the period	-	-	-	-	(4,399,949)	(4,399,949)
Balance at 30 June 2021 (Unaudited)	**55,339,126**	**14,910**	**31,759,125**	**850,225**	**(23,492,428)**	**9,131,832**
Balance at 1 January 2020 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**892,891**	**(12,838,826)**	**11,458,414**
Employee share-based compensation	-	-	-	16,593	-	16,593
Cancellation of employee share-based compensation	-	-	-	(129,993)	-	(129,993)
Exercise of employee options	138,000	40	13,760	-	-	13,800
Net comprehensive loss for the period	-	-	-	-	(2,909,597)	(2,909,597)
Balance at 30 June 2020 (Unaudited)	**32,694,686**	**8,079**	**23,410,070**	**779,491**	**(15,748,423)**	**8,449,217**
Balance at 1 January 2020 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**892,891**	**(12,838,826)**	**11,458,414**
Employee share-based compensation	-	-	-	(79,635)	-	(79,635)
Exercise of employee options	338,000	99	33,701	-	-	33,800
Net proceeds allocated to the issuance of ordinary shares	7,333,334	2,140	914,595	-	-	916,735
Exercise of warrants	3,744,426	1,165	1,632,220	-	-	1,633,385
Shares issued pursuant to share subscription agreement	2,466,051	750	984,732	-	-	985,482
Shares issued, not yet paid for *	880,000	258	196,259	-	-	196,517
Expenses paid in shares and warrants	150,000	44	39,975	-	-	40,019
Net comprehensive loss for the year	-	-	-	-	(6,253,653)	(6,253,653)
Balance at 31 December 2020 (Audited)	**47,468,497**	**12,495**	**27,197,792**	**813,256**	**(19,092,479)**	**8,931,064**

The accompanying notes are an integral part of the interim financial statements.

STATEMENTS OF CASH FLOWS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited		Audited
Operating activities			
Net comprehensive loss for the period	(4,399,949)	(2,909,597)	(6,253,653)
Non-cash adjustments			
Depreciation of property and equipment	48,531	78,198	156,012
Depreciation of operating lease right of use asset	75,094	77,931	155,862
Share-based compensation	36,969	(15,556)	18,209
Amortisation of intangible assets	480,690	471,917	952,606
Amortisation of liabilities	(5,717)	-	-
Foreign exchange (gains) losses on cash balances	50,733	(79,804)	145,258
Capital loss	-	612	5,275
Income from change of lease terms	(442)		
Revaluation of financial instruments, net	1,279,477	-	1,335,172
Expenses paid in shares and options	83,436	-	40,019
Net changes in working capital			
Decrease (increase) in trade receivables	8,142	142,474	(350,899)
Decrease (increase) in inventories	(81,775)	(2,128)	(6,589)
Decrease in other current assets	34,929	185,867	104,468
Increase in other long-term assets	(2,831)	(2,340)	(2,340)
Increase (decrease) in trade payables	218,260	(176,769)	(35,064)
Increase (decrease) in other liabilities	(101,184)	61,735	140,837
Net cash used in operating activities	**(2,275,637)**	**(2,167,460)**	**(3,594,827)**
Investing activities			
Proceeds from other short-term financial assets	-	2,553,823	2,553,823
Purchase of property and equipment	(13,030)	(13,035)	(187,857)
Net cash provided by (used in) investing activities	**(13,030)**	**2,540,788**	**2,365,966**
Financing activities			
Proceeds from share subscription agreement	2,153,856	-	1,164,190
Proceeds allocated to ordinary shares, net	356,443	-	916,993
Proceeds allocated to warrants	-	-	82,251
Proceeds from exercise of warrants and options	1,319,387	13,800	1,027,142
Proceeds from short term borrowings	398,656	-	636,993
Repayment of short-term borrowings	(550,676)	(961,808)	(1,237,998)
Repayment of lease liability	(76,683)	(74,942)	(151,648)
Net cash provided by (used in) financing activities	**3,600,983**	**(1,022,950)**	**2,437,923**
Net change in cash and cash equivalents	1,312,316	(649,622)	1,209,062
Cash and cash equivalents, beginning of year	2,180,726	1,116,922	1,116,922
Exchange differences on cash and cash equivalents	(50,733)	79,804	(145,258)
Cash and cash equivalents, end of period	3,442,309	547,104	2,180,726
Supplementary information:			
Interest paid during the period	8,376	15,912	9,764
Interest received during the period	-	13,859	63,059
Supplementary information on non-cash activities:			
Share-based compensation capitalised to intangible assets	-	(97,844)	(97,844)
Shares issued, not yet paid for	-	-	196,259
Shares issued pursuant to share subscription agreement	2,448,522	-	985,482
Expenses paid in shares and warrants	83,436	-	40,019

The accompanying notes are an integral part of the interim financial statements.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

ETHERNITY NETWORKS LTD. (hereinafter: the "Company"), was incorporated in Israel on the 15th of December 2003 as Neracore Ltd. The Company changed its name to ETHERNITY NETWORKS LTD. on the 10th of August 2004.

The Company provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks performance. Ethernity's FPGA logic offers complete Carrier Ethernet Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimise telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and different NFV appliances including 5G UPF, SD-WAN, vCMTS and vBNG with the current focus on 5G emerging appliances. The Company's customers are situated worldwide.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of presentation of the financial statements and statement of compliance with IFRS

The interim condensed financial statements for the six months ended 30 June 2021 have been prepared in accordance with IAS 34, Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements in accordance with IFRS and should be read in conjunction with the Company's annual financial statements as at 31 December 2020. The accounting policies applied in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2020.

The interim condensed financial statements for the half-year ended 30 June 2021 (including comparative amounts) were approved and authorized for issue by the board of directors on 18 August 2021.

NOTE 3 - GOING CONCERN

The Interim Financial Statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to 12 months from the reporting date. Whilst the assessment which was made on 24 June 2021 in the publication of the Annual Results for the year ended 31 December 2020 still remains relevant, due to the positive changes in circumstances subsequent to the publication of the last financial results, the Company believes that the going assumption of a going concern stands. The assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given inter alia, to the current stage of the Company's life cycle, the certainty on contracts signed with customers and with respect to the development of the Company's products, the expected timing and amounts of future revenues, its losses and cash outflows.

Subsequent to the report of 24 June 2021 and based on the current contracts commitments and the expected revenues to be derived therefrom, in conjunction with the available resources in hand, the Company believes it has adequate resources to continue as a going concern to meet trading requirements. This is reinforced by the fact that finally after a long delays due to COVID-19 spread in

India, the Indian OEM completed fabrication of the UEP-60 product that has generated significant demand in the Indian market, and the new contract signed with a wireless connectivity vendor for customised UEP-60 with bonding which deliverables in terms of the contracts are now reliant upon the Company delivering and not the customer. To the best knowledge of the Company there is sufficient demand for the products to meet the Company revenue targets for 2022.

In the event of circumstances beyond the control of the Company such as a further significant impact of COVID which may result in component delays or customer deployment delays into their marketplaces, management believes that the proven success and ability of the Directors to raise further funds either through debt, equity or deferral of liabilities would secure additional resources required to meet trading commitments into the future. Cogniscance is given to the Directors current assessment of financial and operational risk and their best estimate of the potential impact of COVID-19 and the availability of components on operations and the continued possible material uncertainties arising therefrom.

As of 30 June 2021, the Company incurred an accumulated deficit of $23.5 million and reported net comprehensive loss of $4.4 million and negative cash flows from operating activities of $2.3 million during the 6 months ended June 30, 2021 (31 December 2020, accumulated deficit $19.1 million, net comprehensive loss of $6.3 million and negative cash flows from operating activities of $3.6 million during the year ended December 31, 2020). That being noted, given the view of the contracts signed, the progress of our customers including the FPGA SoC orders towards the fixed wireless business, the Company and directors anticipate that with current cash available and the anticipated revenues from these contracts, existing engagements and anticipated further engagements, the Company can fund its operations for the foreseeable future without the need for further external sources of funds, excluding circumstances beyond the control of the Company that may then require external sources of financing.

In January 2020, the Company's forecast for the financial year showed a movement into positive operational cash flow from the end of the first half of 2021, having taken into account the effects of the cash flow enhancement measures announced. However, in the market update published on 24 June 2021 with the Annual Results for the year ended 31 December 2020, it announced that in light of the developments in connection with COVID -19, there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans. This may result in the Company encountering customer driven delays in deliverables dates and revenue recognition during the 2021 which could subsequently result in the deferral of revenues from 2021 to 2022.

The Company has raised in aggregate £2.66 million ($3.55 million) via the July 2020 Placing and Warrant issue, all of which closed on 12 May 2021. Funds were received from the initial issue of shares and the exercise of the related Warrants, which included £616,667 from the Directors. As of 31 December 2020, the Company had raised a total of £2.51m ($3.23m) from the Placing and Share Subscription noted above, with a further £2.86m ($3.97m) to date in 2021, bringing the total funds raised as of the date of these Interim Financial Statements announcement of £5.37m ($7.26m).

During the six month period ended 30 June 2021, the Company announced further customer engagements or orders from existing customers. These included on 6 April 2021 the initial order from the existing Wireless Broadband Solution customer of $400k, followed by the announcement of the annual results on 24 June 2021 of additional orders totaling $740k for 2021 delivery and $1.26m for delivery in 2022. The Company further announced on 30 July 2021 a new customer contract of $930k that will be earned in 2021 and 2022 along with anticipated additional revenues from this contract of at least $1m for 2022 and subsequent further growth.

In the light of enquiries made by the Directors as to the current liquidity position of the Company, the recent increases in contracted future revenues, as well as bearing in mind the ability and success of the Company to raise funds previously, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future and therefore have adopted the going concern basis of preparation in the financial statements.

Notwithstanding as described above, there is still material uncertainty that may cast doubt on the Company's ability to continue as a going concern and fulfil its obligations and liabilities in the normal course of business in the near future. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 4 - SIGNIFICANT EVENTS

COVID-19

The Company had previously stated that in light of the continued uncertainty on the potential impact and duration of the COVID-19 pandemic, the Board had taken certain steps to both safeguard the well-being of staff and to position the Company for the future. This included that, in common with many other companies, it may need to seek alternative sources of funding. These steps were successfully undertaken, with total funds raised by the Company from July 2020 to date from the placing, warrants and the Share Subscription Agreement of £5.4m ($7.3m), and the Company managed to maintain its operational capacity and deliverables during the extremely difficult time the world endured due to COVID-19.

Currently, with the impact of COVID-19 in Israel having been reduced significantly, the Company has resumed its planned strategies including the enhancement of the development resources.

Considering the worldwide components shortage issue that albeit has been currently resolved for the Company, along with the residual COVID-19 disruptions worldwide and the current exponential outbreak of COVID-19 in India and Taiwan, there remains elements of uncertainty over the timing of near-term events due to the challenges faced by our customers regarding both timing of component supply and the meeting of their own plans.

EQUITY TRANSACTIONS DURING THE ACCOUNTING PERIOD

During the 6 month period ended 30 June 2021, ordinary shares of the Company were issued, as follows:

	Note	Number of ordinary shares
Exercise of warrants	[1]	3,500,010
Shares issued pursuant to share subscription agreement	[2]	3,838,952
Expenses paid for in shares		305,000
Exercise of employee options		226,667
		7,870,629

[1] In July 2020 the Company issued 7,333,334 shares attached to 7,333,334 warrants. Every 2 shares and the attached 2 warrants were issued for £ 0.24 (£ 0.12 per share and attached warrant). Every 2 warrants were comprised of 1 warrant exercisable at £ 0.20 (“£ 0.20 warrants”) and 1 warrant exercisable at £ 0.30 (“£ 0.30 warrants”), both of which, were not transferable, were not traded on an exchange and had a life term of 12 months. All the £ 0.20 warrants were either exercised

or cancelled during 2020. The £ 0.30 warrants had an accelerator clause, whereby the warrants would be callable by the Company if the closing mid-market share price of the Company exceeded £ 0.40 over a 5-consecutive day period, which was triggered in May 2021. Accordingly, the Company served notice on the remaining £ 0.30 warrant holders to exercise their warrants within 7 calendar days, failing which, such remaining unexercised warrants would be cancelled. Between January 2021 and May 2021, a total of 3,500,010 warrants were exercised (including 833,334 by the directors of the Company) and 166,657 warrants were cancelled.

These warrants represent a derivative financial liability required to be accounted for at fair value through the profit or loss category, under financing costs or financing income, as applicable. The fair value of the derivative warrant liability related to these £ 0.30 warrants as at 31 December 2020 was approximately $0.29m. The fair value of these warrants as at the time of their exercises between January 2021 to May 2021 was approximately $0.55m, with the difference of $0.26m expensed to financing costs. Upon the exercise of these options the Company received exercise proceeds of approximately $1.45m, which together with the fair value of these warrants at the time of their exercise, were recorded in share capital and share premium.

[2] On 24 September 2020 the Company entered into a share subscription deed / agreement (“SSD”) with an institutional investor (“Investor”), to raise up to £ 3,200,000 (Approx. $4,100,000) as follows:

Closing tranche		Subscription amount	Amount receivable by Company	Date that amount was received
1st		£ 547,000	£ 500,000	25 Sep. 2020
2nd		£ 438,000	£ 400,000	31 Dec. 2020
	Total amounts received until 31 December 2020	**£ 985,000**	**£ 900,000**	
3rd		£ 438,000	£ 400,000	4 Mar. 2021
4th		£ 438,000	£ 400,000	16 Apr. 2021
5th		£ 823,500	£ 750,000	30 Apr. 2021
	Total amounts received until 30 June 2021	**£ 2,684,500**	**£ 2,450,000**	
6th		£ 823,500	£ 750,000	*
		£ 3,508,000	£ 3,200,000	

* This amount has not yet been received and is to be funded by mutual agreement.

In March and April 2021, the Investor subscribed for $1,950,000 (£ 1,550,000), being the 3rd, 4th and 5th closings, with a total face value of $2,138,289 (£ 1,699,500), with the difference of $0.19m being expensed to financing costs.

Pursuant to the share subscription agreement, the Investor has the right, at its sole discretion to require the Company to issue shares in relation to the subscription amount outstanding (or a part of it), under which, the number of shares to be issued for such settlement, shall be determined using an average five daily VWAP share price of the Company’s shares as selected by the Investor, during the 20 trading days prior to such settlement notice (“Conversion Price”). However, the company has certain rights to make cash payments in lieu of the above share settlement, while the Investor is entitled to exclude from such cash payment, up to 30% of the cash settlement amount.

The Company's obligation under the share subscription agreement with respect for each subscription amount received by the Company, is designated as a financial "liability related to share subscription agreement" at fair value, with changes in the fair value for the period carried through to profit or loss under financing costs or financing income, as applicable. The fair value of the liability related to the share subscription agreement as at 30 June 2021 was approximately $1.62m (as at 31 December 2020: approximately $0.84m).

Upon settlement or a partial settlement of such liability, such as when the Investor calls for the settlement of the subscription amount outstanding (or any part of it) for a fixed number of shares, the fair value of the liability, related to the settled portion is carried to share equity and share premium.

During the 6 month period ended 30 June 2021, the Investor called for the settlement of subscription amounts in exchange for shares, as follows:

	Date of conversion	Amount converted GBP	Amount converted USD	Shares Issued
Conversion	16 April 2021	500,000	689,250	1,805,054
Conversion	28 April 2021	600,000	834,240	2,033,898
		1,100,000	1,523,490	3,838,952

[3] Concurrent with the initial investment by the Investor in September 2020, the Company issued 880,000 shares to the Investor for the par value of the shares, being $258. The Investor at its discretion, may choose to pay for these 880,000 shares, calculated at the then current Conversion Price. Upon issuance of the shares, the company recognised an amount of $0.2m, representing the fair value of the investor's obligation to payment for the shares under the Other Current Assets caption "proceeds due on account of shares issued" which is a financial asset measured at fair value through profit or loss. As at 31 December 2020 the fair value of this asset was estimated at $0.30m. In April 2021 the Investor chose to pay for these shares for total proceeds of $0.35m, with the $50,000 increase from the value at 31 December 2020, being carried to profit or loss as financing income.

NOTE 5 - FINANCING COSTS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited		Audited
Bank fees and interest	19,092	13,563	23,253
Lease liability financial expenses	5,349	8,573	15,634
Revaluation of liability related to share subscription agreement measured at FVTPL	1,132,992	-	571,423
Revaluation of warrant derivative liability	262,035	-	852,430
Total financing costs	1,419,468	22,136	1,462,740

NOTE 6 - FINANCING INCOME

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited		Audited
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	49,723	-	105,399
Interest received	-	13,859	63,059
Exchange rate differences	66,874	164,057	129,558
Total financing income	116,597	177,916	298,016

NOTE 7 - SEGMENT REPORTING

The Company has implemented the principles of IFRS 8, in respect of reporting segmented activities. In terms of IFRS 8, the management has determined that the Company has a single area of business, being the development and delivery of high-end network processing technology.

The Company's revenues are divided into the following geographical areas:

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited		Audited
United States	765,075	227,520	1,256,613
Israel	161,796	121,855	262,119
Asia	28,500	10,000	335,000
	955,371	359,375	1,853,732

The Company's revenues are divided into the following geographical areas:

	%		
	Six months ended 30 June		Year ended 31 December
	2021	2020	2020
	Unaudited		Audited
United States	80.1%	63.3%	67.8%
Israel	16.9%	33.9%	14.1%
Asia	3.0%	2.8%	18.1%
	100.0%	100.0%	100.0%

Revenue from customers in the company's domicile, Israel, as well as its major market, the United States and Asia, have been identified on the basis of the customer's geographical locations.