

22 September 2022

ETHERNITY NETWORKS LTD
("Ethernity" or the "Company" or the "Group")

Interim results for the six months ended 30 June 2022

Ethernity Networks Ltd (AIM: ENET.L; OTCQB: ENETF), a leading supplier of networking processing semiconductor technology ported on FPGA (field programmable gate array) for virtualised networking appliances, announces its interim results for the six months ended 30 June 2022.

Financial summary

- Revenues lower than the comparable period by 26.22% to \$704,853 (H1 2021: \$955,371).
- Gross margin lower by 29.23% at \$428,761 over the comparable period (H1 2021: \$605,852) due to mix of product sales.
- Gross margin percentage of 60.83% (H1 2021: 63.42%).
- Net Comprehensive Loss for the period reduced by \$897,216 to \$3,502,733 (H1 2021: \$4,399,949).
- Research and Development, General and Administrative, and Marketing expenses (before amortisation, depreciation and IFRS adjustments) increased by an overall 29.94% due mainly to the planned increase in Research and Development resources.
- EBITDA loss increased by 46.35% to \$3,620,171 (H1 2021: \$2,473,686), driven by the increase in the planned Research and Development costs.
- Component inventories increased by ~\$520,000 to ~\$646,000 (H1 2021: ~\$124,000) as the Company increased inventories on hand to meet deliveries due to the effects of the ongoing worldwide component shortages.

Current trading

Revenues to 31 August 2022 were 36% higher than the comparable period of 2021, as a result of an increase in activity in the second half of the year to date, with the July and August 2022 revenues being similar in value to the entire H1 2022 revenue.

The Company signed a new \$4.6 million contract with an existing customer, a broadband network OEM as a follow-on to a prior contract, to supply system-on-chip (SoC) devices with support for Gigabit Passive Optical Networking (GPON) Optical Line Termination (OLT), adapted to enable Fiber-to-the-Room (FTTR) deployments.

Fiber-to-the-Room is a disruptive trend that is built on top of the Fiber-to-the-Home market estimated by Global Industry Analysts Inc. to reach \$29.7 billion by 2026) and that uses passive optical fiber to reach residential, retail and enterprise deployments. Passive fiber optic deployments provide greater reliability and performance than Wi-Fi and a greener and more power efficient solution than traditional copper cabling. By bringing fiber into the individual rooms of an apartment or small office, end users can benefit from higher throughput with an unmatched level of service to enable today's most data-hungry applications without experiencing lags.

On 8 September 2022, the Company announced the commencement of trading in the Company's ordinary shares ("Ordinary Shares") on the OTCQB Venture Market ("OTCQB"), in the United States, under the ticker symbol "ENETF". Cross trading on the OTCQB allows the Company access to one of the world's largest investment markets to expand its reach into a broader pool of investors. Ethernity's shares are available to US investors during US working hours and

priced in US dollars, which has the potential to enable greater liquidity in the Company's Ordinary Shares on AIM by easing cross-border trading for potential US investors.

Company Strategy

The Company is operating in the competitive and growing Telecom industry offering and delivering innovative semiconductor technology, system platforms and differentiated offerings related to the 5G infrastructure market all based on the Company's semiconductor data processing technology, as patented programmable technical innovations to accelerate the telco/cloud network, each with its own set of rich networking and security features, to address the requirements of various markets.

As they do not detract from our continued strategy, the opportunities that are arising for the Company from the worldwide component shortages as outlined further in this report will be pursued, as they remain within the overall strategy.

The Management believes that the current signed contracts and orders received and expected, along with the many other ongoing customer discussions and potential opportunities, show that our unique and value-added offerings can capture significant interest in this market. With our main goal of becoming a supplier of customised and differentiated system and SoC solutions, 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 2022, ~59% of revenues were derived from the change in the mix towards supply of our data processing FPGA SoC and Devices.

Half Year Review

The worldwide component shortage

The first half of 2022 was a challenging period for the Company as, subsequent to the Company having concluded a number of systems contracts, the worldwide component shortage and the unforeseen effects thereof started to impact on the Company and its customers. The Company was proactive in this area by procuring and investing in component inventory where it could, to ensure it was capable of delivering on various contracts. This is evidenced by the significant increase of inventories as shown in the balance sheet.

Impact on the Company

As the Company faced the components challenges, while progressing talks with new and existing customers, we could not commit to new possible contracts and opportunities because of the uncertainty of component supply. Along with this, the components shortages not only delayed deliveries to customers, but our customer orders were also extended by them as they felt the effects of the shortages on their own operations and deployments.

Furthermore, the situation resulted in exponential increases in the price of components, bringing the costs of the systems solutions and their economic viability for the customers into question.

Opportunities for the Company due to the worldwide shortages

During the period under review, supply chain issues created opportunities for the Company. As component shortages continued, we experienced a slight impact, as did larger system vendors.

This has created opportunities for the Company in that the system vendor customers are searching for alternative solutions, which include evaluating options to design their own Application Specific Integrated Circuit (ASIC) so as to allow them to overcome and control the critical components of their solutions and to control their costs. Therefore, the vendors have started looking to development of ASICs as an alternative, as these allow for a significantly lower cost alternative for them.

This has built new industry verticals and market opportunities for the Company to leverage our existing semiconductor technology and IP for use on potentially larger volume ASICs. To this end, the Company is currently in advanced discussions with existing and potential customers. There is significant interest in both our data processing SoC technology and our PON MAC SoC technology.

Operational highlights

During H1 2022 our activities have progressed in multiple domains:

- Continued deliveries and growth in our fixed wireless OEM business, expecting to complete shipment by the end of 2022 of the entire \$2.2 million order for our Data processing SoC on FPGA as planned for 2021 and 2022.
- Further development on a 2nd generation FPGA product based on Ethernity's advanced offering.
- Progress in the development of our UEP2025 product, in preparation for supply as a completed product towards the end of the year to potential customers.
- Significant progress on the PON devices for current contracts and for offerings to potential customers, to expand significantly over and above the current \$3 million delivery contract for PON, where the first 10G PON (XGS-PON platform) completed development by our Customer, with planned deployment during Q1/23.
- The Company continues with engagements and discussions on our groundbreaking offering based on the ACE-NIC100 for Distribution Unit (DU) vRouter offload for 5G private networks.

Outlook for 2022 and 2023

2022

- The shortage of components, including the current schedule of FGPA deliveries from suppliers, as well as the cancelled customer contract announced on 1 September 2022, has reduced the Company's previously notified revenue expectations for 2022.
- Based on the current contract pipeline and component delivery schedule, the Management expect full year revenue to be in the region of \$3.6 million
- Further discussions anticipated with customers for the Company's offerings of the UEP2025.
- New discussions for a second generation (Gen2) product and development for the fixed wireless customer.
- Our PON technology offering is now creating great interest for use on low port count OLT platforms, as well as for optical SFP with single-port XGS-PON and GPON.
- Currently in discussions with large companies for channel market and sales of our UEP2025 and its variants for the WISPs (wireless internet service providers) in the USA.

2023

- Outlook remains as previously noted, with increased visibility based on the PON and XGS-PON contracts signed and \$6 million in orders under current contracts.
- Potential for further revenue contribution, over and above the contracted orders, from:

- Anticipated contract wins from existing customers of FPGA SoC, which would lead to growth over 2022 with upside opportunities from follow-on platform deployments.
- New discussions progressing for UEP cell site routers and ACE-NICs for the 5G and vRouter markets.
- Continued positive engagements and discussions with current and potential new customers on the UEP2025.
- Continued positive engagements and discussions for our existing semiconductor technology and IP for use on a potentially larger volume ASIC.

The Board remains confident that, based on 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.

In summary, the business, engagements and new opportunities remain positive and intact, however the Company recognises possible effects due to customer and component delays.

During 2023 and beyond, the Company anticipates generating further revenues from its FPGA SoC, UEP cell site routers and ACE-NICs for the 5G and vRouter markets, PON devices, and advances on ASIC developments 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 and PON business. Resulting from the new contracts and orders, and notwithstanding the delays as mentioned above, the Company is satisfied that it 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 positive mix of product, royalties and licensing revenues reflects the progress in our current strategy and are pleased to be continuing the evolution of the Company, with our strategy to focus on product and system revenue business. We do, however, continue to be mindful of the fact that delays from the component shortage situation experienced by our customers could defer planned Q3 and Q4 2022 revenues into the latter portions of Q1 and Q2 2023. We are excited by the opportunities being presented by the components shortages to leverage our data processing SoC technology and IP, as well as our PON semiconductor technology."

"The product contracts already signed, the product orders received (which are expected to grow), and the good progress in the PON devices business will all fuel our revenue growth to position us not just as a technology company, but as a validated semiconductor and 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 as stipulated under the Market Abuse (amendment) (EU Exit) Regulations 2019/310 (“MAR”). With 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 to progress and diversify 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 18 months.

During the period under review, the Company delivered revenues of \$704,853 (H1 2021: \$955,371) and a gross profit of \$428,761 (H1 2021 \$605,852). Revenues, while lower than the comparable period, are a reflection of the timing on deliveries as per the orders. In July and August 2022, revenues were similar in value to that of the entire H1 2022 period. As in the past, the greater majority of revenues are expected to be earned in the second half of the financial year. Booked revenues for the year to 31 August 2022 were 36% higher than the comparable period of 2021.

The gross profit margin of 60.83% is similar in range to H1 2021 of 63.42%, 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

The EBITDA for the period under review for the six months ended 30 June 2022 is presented as follows:

EBITDA	US Dollar			Increase (Decrease)	%
	For the 6 months ended 30 June		31 December		
	2022	2021	2021		
Revenues	704,853	955,371	2,635,420	-250,518	-26.22%
Gross Margin as presented	428,761	605,852	1,944,903	-177,091	-29.23%
<i>Gross Margin %</i>	<i>60.83%</i>	<i>63.42%</i>	<i>73.80%</i>	-	-
Operating Loss as presented	-4,478,031	-3,097,078	-6,327,475	-1,380,953	44.59%
Add back Amortisation of Intangible Assets	480,690	480,690	961,380	-	-
Add back Share based compensation charges	127,444	36,969	77,583	90,475	244.73%
Add back vacation accrual charges	22,782	-18,154	-27,519	40,936	-225.49%
Add back depreciation charges on fixed assets	53,052	48,793	87,586	4,259	8.73%
Add back IFRS operating leases depreciation	173,892	75,094	173,675	98,798	131.57%
EBITDA	-3,620,171	-2,473,686	-5,054,770	-1,146,485	46.35%

EBITDA loss in the first six months of the year widened to \$3,620,171 (H1 2021 loss: \$2,473,686), which was anticipated over the previously reported comparable period. This loss is impacted by the planned increase in the Research and Development resource costs. 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, depreciation and IFRS adjustments), increased by 29.9% in the current period against the same period in 2021 from \$3,100,340 to \$4,028,732.

Within the R&D division, as planned resource recruitment continued, the majority of the increased operating costs of \$707,116 were made up of staffing resources increases of approximately \$594,000.

General and Administration costs (before amortisation, depreciation and IFRS adjustments), increased by approximately \$84,000, driven by the once off costs related to the required take-on of a new Nominated Advisor, planned increases in audit fees, and costs relating to the new premises.

The increase in the Marketing expenses (before amortisation, depreciation and IFRS adjustments) are a direct result of the increase in planned resources 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 Dollar			Increase (Decrease) June	%
	For the 6 months ended 30 June		31 December		
	2022	2021	2021		
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	2,689,191	1,982,075	4,568,491	707,116	35.68%
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments.	726,893	642,685	1,372,043	84,208	13.10%
Marketing expenses, net of Share Based Compensation and Vacation accruals.	612,648	475,580	1,024,451	137,068	28.82%
Total	4,028,732	3,100,340	6,964,985	928,392	29.94%

Summarised trading results

Summarised Trading Results	US Dollar			Increase (Decrease)	%
	For the 6 months ended 30 June		31 December		
	2022	2021	2021		
Revenues	704,853	955,371	2,635,420	-250,518	-26.22%
Gross Margin	428,761	605,852	1,944,903	-177,091	-29.23%
Gross Margin %	60.83%	63.42%	73.80%	-	-
Operating Loss Profit	-4,478,031	-3,097,078	-6,327,475	-1,380,953	44.59%
Financing costs	-274,565	-1,419,468	-3,074,452	1,144,903	-80.66%
Financing income (expenses)	1,249,863	116,597	228,404	1,133,266	971.95%
(Loss) Profit before tax	-3,502,733	-4,399,949	-9,173,523	897,216	-20.39%
Tax benefit (reversal of previous deferred tax benefit)	0	0	-186,772	-	-
Net comprehensive loss for the year	-3,502,733	-4,399,949	-9,360,295	897,216	-20.39%

Basic and Diluted earnings per ordinary share	-0.05	-0.09	-0.14	0.09	
Weighted average number of ordinary shares for basic earnings per share	75,367,394	51,347,740	67,492,412		

Revenue Analysis

Revenues for the six months ended 30 June 2022 of \$704,853 (2021: \$955,371) reflect the timing of deliveries as laid out in the various contracts.

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 2022		Six months ended 30 June 2021		Year ended 31 December 2021	
	US\$	%	US\$	%	US\$	%
United States	512,650	72.7%	765,075	80.1%	1,146,003	43.5%
Israel	149,403	21.2%	161,796	16.9%	760,559	28.9%
Asia	42,800	6.1%	28,500	3.0%	598,858	22.7%
Europe	0	0.0%	0	0.0%	130,000	4.9%
Total	704,853	100.0%	955,371	100.0%	2,635,420	100.0%

Margins

Gross margins were line with Company expectations based on the product sales strategy focus, and the 2022 gross margin for the period was 60.83%. The gross margin will vary according to the revenue mix and 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 2021, the financing costs have 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 2021 and the first half of 2022 being;

- a. Issuance of the Share and Warrants bundle (Peterhouse Capital Limited) in September 2021
- b. Share Subscription Agreement (5G Innovation Leaders Fund) in February 2022

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 60p Warrants which had not been exercised as of 30 June 2022.

The liability in respect of deal b. represents the cash the Company has received during in February 2022 and that as of 30 June 2022 still has not allotted shares against the advance in settlement of the debt.

The above outlined treatment results in a significant adjustments to finance incomes and expenses 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 Financing Expenses and Finance Income in the Income Statement are thus summarised as follows:

Financing expenses for period ended June 30 2022		
5G Innovation Leaders Fund	\$60,000	Face value premium of \$60,000 on \$2,000,000 funded to the Company in February 2022.
	\$80,000	Facility fee for the funding received by the Company in February 2022.
	\$140,000	

Financing Income for the period ended June 30 2022		
Peterhouse September 2021 placing	\$1,209,960	Updating value of warrants issued, to fair value as at 30 June 2022.

Liability at 30 June 2022		
5G Innovation Leaders Fund	\$2,060,000	Liability to 5G representing the \$2,000,000 funded to the Company in February 2022, together with a \$60,000 premium. This was not revalued as there was no material difference between market price and conversion price at 30 June 2022.
	\$53,333	Liability to 5G for balance of \$80,000 facility fee for the funding received by the Company in February 2022.
Peterhouse September 2021 placing	\$5,033	Warrants liability in regard to September 2021 placing deal, short term and long term (60p. Warrants)
	\$2,118,366	

The cash resources during the period under review were further bolstered following further investment from the Share Subscription Agreement of \$2m.

COVID-19 IMPACT AND GOING CONCERN

Currently, with the impact of COVID-19 in Israel and worldwide having been reduced significantly, we remain acutely aware that the ongoing effects of COVID-19 and potential for further outbreaks is something that can neither be predicted nor negated, not only in Israel but in the geographies that we trade and have development engagements. As such, we do realise the risk of an impact in current and possible further 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, as evidenced by the ongoing worldwide component shortage which is a direct result of the COVID-19 pandemic.

Based on the abovementioned cash position and signed contracts, and in the light of enquiries made by the Directors as to the current liquidity position of the Company, 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.

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

21 September 2022

Interim Unaudited Financial Statements

as at 30 June 2022

STATEMENTS OF FINANCIAL POSITION

		US dollars		
		30 June		31 December
		2022	2021	2021
		Unaudited		Audited
ASSETS				
Current				
Cash and cash equivalents		4,164,415	3,442,309	7,060,824
Trade receivables		1,273,328	769,919	1,545,598
Inventories	5	771,122	255,269	284,810
Other current assets		234,263	290,103	240,964
Current assets		6,443,128	4,757,600	9,132,196
Non-Current				
Property and equipment		800,194	516,611	660,069
Deferred tax assets		-	186,772	-
Intangible asset		5,943,490	6,904,870	6,424,180
Right-of-use asset		2,982,310	199,160	3,156,202
Other long term assets		35,767	10,338	38,956
Non-current assets		9,761,761	7,817,751	10,279,407
Total assets		16,204,889	12,575,351	19,411,603
LIABILITIES AND EQUITY				
Current				
Short Term Borrowings		74,286	253,988	422,633
Trade payables		739,258	508,434	651,758
Liability related to share subscription agreement		2,060,000	1,619,509	-
Warrants liability		5,033	-	1,214,993
Other current liabilities		1,100,706	1,002,185	1,097,359
Current liabilities		3,979,283	3,384,116	3,386,743
Non-Current				
Lease liability		2,625,598	59,403	3,069,721
Non-current liabilities		2,625,598	59,403	3,069,721
Total liabilities		6,604,881	3,443,519	6,456,464
Equity				
Share capital		21,152	14,910	21,140
Share premium		40,402,890	31,759,125	40,382,744
Other components of equity		1,131,473	850,225	1,004,029
Accumulated deficit		(31,955,507)	(23,492,428)	(28,452,774)
Total equity		9,600,008	9,131,832	12,955,139
Total liabilities and equity		16,204,889	12,575,351	19,411,603

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
		2022	2021	2021
	Note	Unaudited		Audited
Revenue	8	704,853	955,371	2,635,420
Cost of sales		276,092	349,519	690,517
Gross profit		428,761	605,852	1,944,903
Research and development expenses		3,276,067	2,496,084	5,550,912
General and administrative expenses		1,001,705	779,149	1,721,873
Marketing expenses		629,020	448,499	1,044,905
Other income		-	(20,802)	(45,312)
Operating loss		(4,478,031)	(3,097,078)	(6,327,475)
Financing costs	6	(274,565)	(1,419,468)	(3,074,452)
Financing income	7	1,249,863	116,597	228,404
Loss before tax		(3,502,733)	(4,399,949)	(9,173,523)
Tax expense		-	-	(186,772)
Net comprehensive loss for the period		(3,502,733)	(4,399,949)	(9,360,295)
Basic and diluted loss per ordinary share		(0.05)	(0.09)	(0.14)
Weighted average number of ordinary shares for basic and diluted loss per share		75,367,394	51,347,740	67,492,412

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 2022 (Audited)	75,351,738	21,140	40,382,744	1,004,029	(28,452,774)	12,955,139
Employee share-based compensation	-	-	-	127,444	-	127,444
Expenses paid in shares	37,106	12	20,146	-	-	20,158
Net comprehensive loss for the period	-	-	-	-	(3,502,733)	(3,502,733)
Balance at 30 June 2022 (Unaudited)	75,388,844	21,152	40,402,890	1,131,473	(31,955,507)	9,600,008
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 2021 (Audited)	47,468,497	12,495	27,197,792	813,256	(19,092,479)	8,931,064
Employee share-based compensation	-	-	-	77,583	-	77,583
Exercise of employee options	706,667	220	70,893	-	-	71,113
Net proceeds allocated to the issuance of ordinary shares	13,149,943	4,053	4,280,265	-	-	4,284,318
Exercise of warrants	3,500,010	1,072	2,007,606	-	-	2,008,678
Shares issued pursuant to share subscription agreement	10,221,621	3,204	6,742,848	-	-	6,746,052
Expenses paid in shares and warrants	305,000	96	83,340	113,190	-	196,626
Net comprehensive loss for the year	-	-	-	-	(9,360,295)	(9,360,295)
Balance at 31 December 2021 (Audited)	75,351,738	21,140	40,382,744	1,004,029	(28,452,774)	12,955,139

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

STATEMENTS OF CASH FLOWS

	US dollars		
	Six months ended		Year ended
	30 June		31 December
	2022	2021	2021
	Unaudited		Audited
Operating activities			
Net comprehensive loss for the period	(3,502,733)	(4,399,949)	(9,360,295)
Non-cash adjustments			
Depreciation of property and equipment	53,052	48,531	86,168
Depreciation of operating lease right of use asset	173,892	75,094	173,675
Share-based compensation	127,444	36,969	77,583
Amortisation of intangible assets	480,690	480,690	961,380
Amortisation of liabilities	(206,755)	(5,717)	39,042
Deferred tax expenses	-	-	186,772
Foreign exchange losses on cash balances	369,053	50,733	30,214
Capital loss	-	-	70
Income from change of lease terms	-	(442)	(8,929)
Revaluation of financial instruments, net	(1,149,960)	1,279,477	2,691,145
Expenses paid in shares and options	20,158	83,436	196,626
Net changes in working capital			
Decrease (increase) in trade receivables	272,270	8,142	(767,537)
Increase in inventories	(486,312)	(81,775)	(111,316)
Decrease in other current assets	6,701	34,929	84,068
Increase (decrease) in other long-term assets	3,189	(2,831)	(2,831)
Increase in trade payables	87,500	218,260	361,583
Decrease in other liabilities	(17,733)	(101,184)	(24,071)
Net cash used in operating activities	(3,769,544)	(2,275,637)	(5,386,653)
Investing activities			
Proceeds from other short-term financial assets	-	-	(28,618)
Purchase of property and equipment	(193,177)	(13,030)	(194,195)
Net cash used in investing activities	(193,177)	(13,030)	(222,813)
Financing activities			
Proceeds from share subscription agreement	2,000,000	2,153,856	3,177,306
Proceeds allocated to ordinary shares, net	-	356,443	5,016,494
Proceeds allocated to warrants	-	-	1,472,561
Issuance costs	-	-	(390,398)
Proceeds from exercise of warrants and options	-	1,319,387	1,367,388
Proceeds from short term borrowings	100,283	398,656	900,192
Repayment of short-term borrowings	(448,630)	(550,676)	(887,585)
Repayment of lease liability	(216,288)	(76,683)	(136,180)
Net cash provided by financing activities	1,435,365	3,600,983	10,519,778
Net change in cash and cash equivalents	(2,527,356)	1,312,316	4,910,312
Cash and cash equivalents, beginning of year	7,060,824	2,180,726	2,180,726
Exchange differences on cash and cash equivalents	(369,053)	(50,733)	(30,214)
Cash and cash equivalents, end of period	4,164,415	3,442,309	7,060,824
Supplementary information:			
Interest paid during the period	6,049	8,376	13,468
Interest received during the period	1,418	-	41
Supplementary information on non-cash activities:			
Recognition of right-of-use asset and lease liability	-	-	3,776,886
Shares issued pursuant to share subscription agreement	-	2,448,522	6,746,052
Expenses paid in shares and warrants	20,158	83,436	83,436

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 2022 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 2021. 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 2021.

The interim condensed financial statements for the half-year ended 30 June 2022 (including comparative amounts) were approved and authorized for issue by the board of directors on 21 September 2022.

NOTE 3 - GOING CONCERN

The 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. 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 significant values of funds raised during the year ended 31 December 2021 and to date, the current stage of the Company's life cycle, its losses and cash outflows, including with respect to the development of the Company's products, the expected timing and amounts of future revenues.

At 30 June 2022 the Company noted that its cash reserves were approximately \$4.2m.

During the latter portion of 2020 and through 2021, the Company entered into new contracts for supply of the Company solutions and products along with deployment orders from existing customers, all of which including customer indications for significant amounts of revenue billings for the 2022,2023 financial years and onwards.

Based on the abovementioned cash position and signed contracts, and in the light of enquiries made by the Directors as to the current liquidity position of the Company, 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, and that there is no 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.

NOTE 4 - SIGNIFICANT EVENTS

EQUITY RELATED TRANSACTIONS DURING THE ACCOUNTING PERIOD

- a. During the six month period ended 30 June 2022, ordinary shares of the Company were issued, as follows:

	<u>Number of ordinary shares</u>
Expenses paid for in shares	37,106
	<u>37,106</u>

- b. On 25 February 2022 the Company entered into an agreement with 5G Innovation Leaders Fund, LLC ("5G Fund") to invest US\$2,000,000 into the Company in exchange for new Shares ("Subscription Shares") valued at US\$2,060,000. The Subscription Shares, will be issued, at 5G Fund's request, within 18 months of the date of the investment at a price per share determined by dividing the subscription value by the settlement price.

The Settlement Price will be equal to the sum of:

- the Reference Price (The Reference Price will be the average of 3 daily volume-weighted average prices ("VWAPs") of Shares selected by 5G Fund during a 15-trading day period immediately prior to the date of notice of their issue, rounded down to the next one tenth of a penny) and
- the Additional Price (The Additional Price will be equal to half of the excess of 85% of the average of the daily VWAPs of the Shares during the three consecutive trading days immediately prior to the date of notice of their issue over the Reference Price). As of 30 June 2022, no amounts have been converted into shares.

NOTE 5 - INVENTORIES

	<u>US dollars</u>		
	<u>30 June</u>		<u>31 December</u>
	<u>2022</u>	<u>2021</u>	<u>2021</u>
	<u>Unaudited</u>		<u>Audited</u>
Components and raw materials	645,852	124,354	165,095
Finished cards	125,270	130,915	119,715
Total inventories	<u>771,122</u>	<u>255,269</u>	<u>284,810</u>

NOTE 6 - FINANCING COSTS

	<u>US dollars</u>	
	<u>Six months ended</u>	<u>Year ended</u>
	<u>30 June</u>	<u>31 December</u>

	2022	2021	2021
	Unaudited		Audited
Bank fees and interest	20,321	19,092	32,147
Lease liability financial expenses	114,244	5,349	30,195
Revaluation of liability related to share subscription agreement measured at FVTPL	60,000	1,132,992	2,884,254
Revaluation of warrant derivative liability	-	262,035	-
Expenses allocated to issuing warrants	-	-	127,856
Expenses allocated to share subscription agreement	80,000	-	-
Total financing costs	274,565	1,419,468	3,074,452

NOTE 7 - FINANCING INCOME

	US dollars		
	Six months ended 30 June	Year ended 31 December	
	2022	2021	2021
	Unaudited		Audited
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	-	49,723	49,723
Revaluation of warrant derivative liability	1,209,960	-	108,723
Lease liability financial income	-	-	8,929
Interest received	1,418	-	41
Exchange rate differences	38,485	66,874	60,988
Total financing income	1,249,863	116,597	228,404

NOTE 8 - 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	
	2022	2021	2021
	Unaudited		Audited
Asia	42,800	28,500	598,858
Europe	-	-	130,000
Israel	149,403	161,796	760,559
United States	512,650	765,075	1,146,003
	704,853	955,371	2,635,420

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

	%		
	Six months ended 30 June	Year ended 31 December	
	2022	2021	2021

	Unaudited		Audited
Asia	6.1%	3.0%	22.7%
Europe	0.0%	0.0%	4.9%
Israel	21.2%	16.9%	28.9%
United States	72.7%	80.1%	43.5%
	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.