

20 September 2023

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

**Interim results for the six months ended 30 June 2023**

Ethernity Networks Ltd (AIM: ENET.L; OTCMKTS: ENETF), a leading supplier of networking processing semiconductor technology ported on field programmable gate arrays ("**FPGAs**") for virtualised networking appliances, announces its interim results for the six months ended 30 June 2023.

**Financial summary**

- Revenues increased by 98% to \$1,398,871 (H1 2022: \$704,853).
- Gross profit increased by 87% to \$802,494 over the comparable period (H1 2022: \$428,761), and an underlying gross profit of \$996,031 without the non-recurring IFRS impairment which reflects an increase of 132% vs H1 2022.
- Gross margin of 57.37% (H1 2022 60.83%) and an underlying gross margin of 71.2% without the non-recurring IFRS impairment.
- Net comprehensive loss for the period increased by \$111,716 to \$3,614,449 (H1 2022: \$3,502,733). This is due to IFRS finance income recognized in H1 2022 in respect of the fundraising undertaken in that period.
- Research and Development, General and Administrative, and Marketing expenses (before amortisation, depreciation and IFRS adjustments) decreased overall by 3%.
- Adjusted EBITDA loss decreased by 19% to \$3,045,037 (H1 2022: \$3,782,342).

**Current trading**

The Company is targeting the achievement of positive cash flow generation from operations during the second half of 2023 by continuing to fulfill customers' orders and from anticipated revenue from new contracts, in combination with a reduction in expenses. The Company anticipates that revenue growth will be achieved as a result of the modified business model which focuses on the licensing of data processing, passive optical network ("PON") and software technology.

As of today, 950,000 platforms have been deployed with the ENET data processing technology, in various types of platforms including Carrier Ethernet Demarcation devices, wireless backhaul, cellular base stations, Broadband fiber and DSL platform, Broadband fix wireless platforms and aerospace aviation platforms. The Company continues to generate steady revenue from existing customers in all the above fields.

Recently, after immense efforts and logistics, the Company's U.S. based Tier 1 Aerospace client received U.S. Government approval to work with the Company on a military project that is based on the ENET Data processor adapted for the aviation market.

Additionally, the Company has expanded the offering of its standard ENET data processing solution with a network operating system that delivers a complete software stack for system operation. This expansion provides an opportunity for revenue growth and an increase in gross margin for each delivery of an ENET Flow processor. It also allows the Company to expand its customer base among those that do not obtain the complete software capabilities for networking functions to deliver customized FPGAs, customized FPGA based systems, or customized eASIC for medium volume platforms.

## Company Strategy

Ethernity's data processing and PON firmware and software can be ported into AMD's low-cost FPGA, Microchip's FPGAs, Intel's FPGAs or Intel's eASIC, dependent on the application, the platform and the volume of the business, for use in mass production with customized features. The ASIC process requires large investment, however the same Firmware that runs on a FPGA can be repurposed for a reduced cost through an eASIC, which requires c. 20% of the investment needed for fabricating a pure ASIC and has a significantly shorter time to market. Therefore, the eASIC can be used for medium volume markets, such as telecom equipment, and provides a considerably lower cost and lower power option than an FPGA. Furthermore, for large volume markets such as Residential Gateways Customer Premises Equipment ("CPE") devices that represents a market of tens of millions of units a year, the ENET Data processing and PON firmware can be utilized on pure ASIC to capture the right price for customer located devices.

The Company's PON technology spans into different market segments including Fiber-To-The-Room, PON Optical Line Terminal ("OLT") Sticks that utilize PON OLT MAC within optical transceiver, remote OLTs with main requirements to support Combo PON, that essentially runs 10G PON and legacy Giga Bit PON ("GPON") over single fibre, and traditional OLTs with multiple PON ports that will be severed by an eASIC process. Furthermore, the Company plans further PON business expansion with 25Gbps PON and 50Gbps PON.

The business model for both the PON and the ENET Flow processor is based on licensing the technology to be implemented on FPGA or eASIC, along with an associated software package, which lowers the time to market for the customers and reduces the time it takes for Ethernity to earn revenue.

The combination of this model of delivering our solution on FPGA for unique and customized platform or an eASIC offering for larger volume markets, should allow the Company to generate cash with higher profit margins, and position the Company as a semiconductor and software provider, offering customized semiconductor solution ported on FPGA/eASIC based devices or a complete system for the telecom access market that will utilize the Company's intellectual property and software framework, to secure the future growth of the Company focusing on its strengths.

## Half Year Review

### Operational highlights

During the first six months of 2023, development was completed on several critical products and solutions including the XGS-PON, GPON and UEP2025 with wireless link bonding. These products and solutions are currently in discussion, testing and evaluation with customers and are targeted to generate licensing revenues and NRE for customised product developments.

The completion of the first release of the UEP-2025 product, the XGS-PON OLT, and fiber-to-the-room ("FTTR") OLT development has enabled the Company to maintain reduced R&D staff while still pursuing future revenue opportunities with these products and technologies.

During H1 2023, the Company's activities have progressed in multiple domains:

- First release of the UEP bonding product delivered to our existing bonding OEM customer who intends to complete its product for integration during Q4/23.
- We completed development of the XGS-PON OLT firmware ported onto our Asian vendor's XGS-PON OLT platform, which embeds Ethernity's XGSPON MAC FPGA SoC.
- Completion of the FTTR gateway - we expect delays in deployment by the customer due to the customer's own constraints, and therefore FTTR revenues for the current year from the customer are uncertain.

- Received a purchase order for \$1.5 million from our existing fixed wireless customer to supply the Company's data processing system-on-chip (SoC) in staged deliveries during Q2 and Q3 2023.

## Outlook

With the modified business model, the Company anticipates it will be able to accelerate growth from its software operation stack, FPGAs, and future eASIC based engagements. This, together with and reduction in costs already implemented, will contribute towards the Company's ability to generate cash for future expansion.

In parallel to the Company's existing FPGA business and the progress with existing customers, the Company is in discussions to expand its UEP-2025 link bonding offering with potential new OEM customers.

### **David Levi, Chief Executive Officer of Ethernity Networks Limited, commented:**

*"While it is a challenging period due to the global financial situation, I am encouraged by the fact that there is demand for our PON offerings that have captured interest from larger corporations, and I am hopeful that, with the cost reductions implemented and the modified business plan, engagement in multiple design wins for our PON technology will fulfil our further anticipated growth."*

### **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

During the period under review, the Company delivered revenues of \$1,398,871 (H1 2022: \$704,853), an increase of 98% over H1 2022.

The underlying gross profit increased to \$996,031 (H1 2022: \$428,761), and the underlying gross margin increased to 71.2% (H1 2022: 60.83%). However, due to a non-recurring IFRS raw material inventory impairment charge of \$194K, which the Company recorded in H1 2023, the gross profit and gross margin have been reduced to \$802,494 and 57.37% respectively.

### EBITDA

The EBITDA for the six months ended 30 June 2023 is presented as follows:

EBITDA	US Dollar			Increase (Decrease) June	%
	For the 6 months ended		12 months ended 31-Dec		
	30-Jun				
	2023	2022	2022		
<b>Revenues</b>	<b>1,398,871</b>	<b>704,853</b>	<b>2,937,424</b>	694,018	98%
COGS	402,840	276,092	1,339,096	126,748	46%
Inventory impairment	193,537	-	-	193,537	
<b>Gross Profit</b>	<b>802,494</b>	<b>428,761</b>	<b>1,598,328</b>	<b>373,733</b>	<b>87%</b>
<i>Gross Margin %</i>	<i>57.37%</i>	<i>60.83%</i>	<i>54.41%</i>	-3pps	
<b>Operating Loss</b>	<b>-3,774,255</b>	<b>-4,478,031</b>	<b>-8,696,876</b>	<b>703,776</b>	<b>-16%</b>
Add back Amortisation of Intangible Assets	480,690	480,690	961,380	-	
Add back depreciation charges on fixed assets	67,614	53,052	108,673	14,562	
Add back IFRS 16 operating leases depreciation net of rent expenses	-46,324	-501	-38,567	-45,823	
<b>EBITDA</b>	<b>-3,272,275</b>	<b>-3,944,790</b>	<b>-7,665,390</b>	<b>672,515</b>	<b>-17%</b>
Add back Share based compensation charges	56,025	127,444	221,362	-71,419	
Add back impairments	193,537	20,200	599,200	173,337	
Add back vacation accrual charges	-22,324	22,782	35,646	-45,106	
<b>Adjusted EBITDA</b>	<b>-3,045,037</b>	<b>-3,774,364</b>	<b>-6,809,182</b>	<b>729,327</b>	<b>-19%</b>

Adjusted EBITDA loss in the first six months of the year decreased by 19% to \$3,045,037 (H1 2022: \$3,774,364). This decrease in adjusted EBITDA loss is attributed to the cost savings steps the Company took in its efforts to control spending and to progress towards generating positive cash flow. These steps, together with the significant increase in reported revenues of \$1,398,871 vs. H1 2022 revenues of \$704,853, resulted in the above-mentioned decrease in the EBITDA loss and adjusted EBITDA loss. The gross margin is a direct result of the revenue mix and it is anticipated that the current margin level will continue.

### Operating Costs

Operating expenses (before amortisation, depreciation and IFRS adjustments) decreased by 4% from \$4,203,125 to \$4,041,068 during the period against the same period in 2022.

Within the R&D division, the Company has cut operating expenses with further cost cuts coming into effect during July and August. The impact of the cost savings attributed to the above cuts will be visible in the 2023 full year figures.

General and Administration costs (before amortisation, depreciation and IFRS adjustments) have not materially changed, however G&A cost will be reduced during second half of 2023.

The decrease in Marketing expenses (before amortisation, depreciation and IFRS adjustments) is attributed to headcount cuts in the department and further costs reduction will be visible during H2 2023.

After adjusting for the amortisation costs of the Development Intangible asset, Depreciation, Share Based Compensation adjustments, and IFRS 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		31-Dec		
	30-Jun				
	2023	2022	2022		
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	2,727,389	2,689,191	5,475,581	38,198	1%
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments	895,691	901,286	1,799,794	-5,595	-1%
Marketing expenses, net of Share Based Compensation and Vacation accruals	417,988	612,648	1,147,176	-194,660	-32%
<b>Total</b>	<b>4,041,068</b>	<b>4,203,125</b>	<b>8,422,551</b>	<b>-162,057</b>	<b>-4%</b>

### Summarised trading results

Summarised Trading Results	US Dollar			Increase (Decrease) June	%
	For the 6 months ended		31-Dec		
	30-Jun				
	2023	2022	2022		
<b>Revenues</b>	<b>1,398,871</b>	<b>704,853</b>	<b>2,937,424</b>	<b>-694,018</b>	<b>98%</b>
<b>Gross Profit</b>	<b>802,494</b>	<b>428,761</b>	<b>1,598,328</b>	<b>-373,733</b>	<b>87%</b>
<i>Gross Margin %</i>	<i>57.37%</i>	<i>60.83%</i>	<i>54.41%</i>	<i>3%</i>	<i>-6%</i>
<b>Operating Loss</b>	<b>-3,774,255</b>	<b>-4,478,031</b>	<b>-8,696,876</b>	<b>-703,776</b>	<b>-16%</b>
Financing costs	-179,529	-274,565	-573,388	-95,036	-35%
Financing income (expenses)	339,335	1,249,863	1,267,652	910,528	-73%
<b>Net comprehensive loss for the year</b>	<b>-3,614,449</b>	<b>-3,502,733</b>	<b>-8,002,612</b>	<b>111,716</b>	<b>3%</b>
Basic and Diluted earnings per ordinary share	-0.03	-0.05	-0.11	-0.02	-33%
Weighted average number of ordinary shares for basic earnings per share	108,252,292	75,367,394	76,013,296		

### Revenue Analysis

Revenues for the six months ended 30 June 2023 of \$1,398,871 (2022: \$704,853) are influenced by the timing of deliveries which is dependent on the terms of the various contracts and orders.

The revenue mix will continue to evolve as the Company progresses, however with the new business model based on licensing of FPGA and ASICs, and projects involved in delivering systems which are based on the Company's IP, the Board anticipates that gross margin should improve.

## Segment Reporting

The geographic mix is represented by the makeup of the products supplied, and the main increase in revenues is attributed to sales to the Company's U.S. based customers.

SEGMENT REPORT geographic analysis						
Region	Six months ended 30 June 2023		Six months ended 30 June 2022		Year ended 31 December 2022	
	US\$	%	US\$	%	US\$	%
United States	1,193,868	85.3%	512,650	72.7%	2,085,670	71.0%
Israel	137,912	9.9%	149,403	21.2%	429,954	14.6%
Asia	54,700	3.9%	42,800	6.1%	290,800	9.9%
Europe	12,390	0.9%	0	0.0%	131,000	4.5%
<b>Total</b>	<b>1,398,870</b>	<b>100.0%</b>	<b>704,853</b>	<b>100.0%</b>	<b>2,937,424</b>	<b>100.0%</b>

## Financing Costs

As noted in the Annual Results for the year ended 31 December 2022, the majority of the financing expenses and income relate to the various fundraise deals the Company has executed.

It is to be noted that these 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 2022 and the first half of 2023 being;

- a. Share Subscription Agreement (5G Innovation Leaders Fund) in February 2022
- b. Issuance of the Share and Warrants bundle in January 2023 and May 2023

It has been determined that in terms of IFRS-9, part of these transactions is to be recognised as equity and part as 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 Financing Expenses and Finance Income in the Income Statement that relate to the above-mentioned transactions are thus summarised as follows:

Financing expenses for the period ended June 30 2023		
01.2023 Placing warrants	\$10,096	Initial expense in respect of warrants issued to broker
<b>Total</b>	<b>\$10,096</b>	

<b>Financing income for the period ended June 30 2023</b>		
<i>01.2023 Placing warrants</i>	\$105,329	Finance income in respect of 6p warrants liability adjusted to fair value as of June 30 2023
<i>5G Innovation Leaders Fund</i>	\$80,034	Net adjustment to fair value of remaining unsettled share subscription agreement as at June 30 2023
<b>Total</b>	<b>\$185,363</b>	

## **GOING CONCERN**

Based on the major cut in expenses and the modified business model, licensing discussion and negotiations with major Telecom manufacturers, and in the light of enquiries made by the Directors as to business status 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**

**Ayala Deutsch**

VP Finance

20 September 2023

# Interim Unaudited Financial Statements as at 30 June 2023

## STATEMENTS OF FINANCIAL POSITION

	US dollars		
	30 June	31 December	
	2023	2022	2022
	Unaudited	Audited	
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	136,872	4,164,415	715,815
Trade receivables	1,465,637	1,273,328	1,299,072
Inventories	5 890,897	771,122	773,076
Other current assets	577,290	234,263	343,872
<b>Current assets</b>	<b>3,070,696</b>	<b>6,443,128</b>	<b>3,131,835</b>
<b>Non-Current</b>			
Property and equipment	891,478	800,194	810,326
Intangible asset	4,982,110	5,943,490	5,462,800
Right-of-use asset	2,658,699	2,982,310	2,816,641
Other long term assets	34,524	35,767	35,689
<b>Non-current assets</b>	<b>8,566,811</b>	<b>9,761,761</b>	<b>9,125,456</b>
<b>Total assets</b>	<b>11,637,507</b>	<b>16,204,889</b>	<b>12,257,291</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Short Term Borrowings	403,492	74,286	428,935
Trade payables	1,010,240	739,258	785,583
Liability related to share subscription agreement	1,510,000	2,060,000	1,836,555
Warrants liability	27,215	5,033	-
Other current liabilities	1,247,660	1,100,706	1,121,909
<b>Current liabilities</b>	<b>4,198,607</b>	<b>3,979,283</b>	<b>4,172,982</b>
<b>Non-Current</b>			
Lease liability	2,278,634	2,625,598	2,505,777
<b>Non-current liabilities</b>	<b>2,278,634</b>	<b>2,625,598</b>	<b>2,505,777</b>
<b>Total liabilities</b>	<b>6,477,241</b>	<b>6,604,881</b>	<b>6,678,759</b>
<b>Equity</b>			
Share capital	38,500	21,152	21,904
Share premium	43,873,332	40,402,890	40,786,623
Other components of equity	1,318,269	1,131,473	1,225,391
Accumulated deficit	(40,069,835)	(31,955,507)	(36,455,386)
<b>Total equity</b>	<b>5,160,266</b>	<b>9,600,008</b>	<b>5,578,532</b>
<b>Total liabilities and equity</b>	<b>11,637,507</b>	<b>16,204,889</b>	<b>12,257,291</b>

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
		2023	2022	2022
Note		Unaudited	Unaudited	Audited
	Revenue	1,398,871	704,853	2,937,424
	Cost of sales	596,377	276,092	1,339,096
	<b>Gross profit</b>	<b>802,494</b>	<b>428,761</b>	<b>1,598,328</b>
	Research and development expenses	3,241,579	3,276,067	6,618,795
	General and administrative expenses	926,293	1,001,705	2,523,916
	Marketing expenses	408,877	629,020	1,167,534
	Other income	-	-	(15,041)
	<b>Operating loss</b>	<b>(3,774,255)</b>	<b>(4,478,031)</b>	<b>(8,696,876)</b>
	Financing costs	(163,008)	(274,565)	(573,388)
	Financing income	322,814	1,249,863	1,267,652
	<b>Loss before tax</b>	<b>(3,614,449)</b>	<b>(3,502,733)</b>	<b>(8,002,612)</b>
	Tax expense	-	-	-
	<b>Net comprehensive loss for the period</b>	<b>(3,614,449)</b>	<b>(3,502,733)</b>	<b>(8,002,612)</b>
	<b>Basic and diluted loss per ordinary share</b>	<b>(0.03)</b>	<b>(0.05)</b>	<b>(0.11)</b>
	Weighted average number of ordinary shares for basic and diluted loss per share	108,252,292	75,367,394	76,013,296

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

## STATEMENTS OF CHANGES IN EQUITY

	US dollars					Total equity
	Number of shares	Share capital	Share premium	Other components of equity	Accumulated deficit	
<b>Balance at 1 January 2023 (Audited)</b>	<b>78,084,437</b>	<b>21,904</b>	<b>40,786,623</b>	<b>1,225,391</b>	<b>(36,455,386)</b>	<b>5,578,532</b>
Employee share-based compensation	-	-	-	56,025	-	56,025
Net proceeds allocated to the issuance of ordinary shares	49,688,097	14,073	2,638,711	-	-	2,652,784
Shares issued pursuant to share subscription agreement	6,629,236	1,816	244,705	-	-	246,521
Expenses paid in shares and warrants	2,388,771	707	203,293	36,853	-	240,853
Net comprehensive loss for the period	-	-	-	-	(3,614,449)	(3,614,449)
<b>Balance at 30 June 2023 (Unaudited)</b>	<b>136,790,541</b>	<b>38,500</b>	<b>43,873,332</b>	<b>1,318,269</b>	<b>(40,069,835)</b>	<b>5,160,266</b>
<b>Balance at 1 January 2022 (Audited)</b>	<b>75,351,738</b>	<b>21,140</b>	<b>40,382,744</b>	<b>1,004,029</b>	<b>(28,452,774)</b>	<b>12,955,139</b>
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)
<b>Balance at 30 June 2022 (Unaudited)</b>	<b>75,388,844</b>	<b>21,152</b>	<b>40,402,890</b>	<b>1,131,473</b>	<b>(31,955,507)</b>	<b>9,600,008</b>
<b>Balance at 1 January 2022 (Audited)</b>	<b>75,351,738</b>	<b>21,140</b>	<b>40,382,744</b>	<b>1,004,029</b>	<b>(28,452,774)</b>	<b>12,955,139</b>
Employee share-based compensation	-	-	-	221,362	-	221,362
Shares issued pursuant to share subscription agreement	2,695,593	752	383,733	-	-	384,485
Expenses paid in shares and warrants	37,106	12	20,146	-	-	20,158
Net comprehensive loss for the year	-	-	-	-	(8,002,612)	(8,002,612)
<b>Balance at 31 December 2022 (Audited)</b>	<b>78,084,437</b>	<b>21,904</b>	<b>40,786,623</b>	<b>1,225,391</b>	<b>(36,455,386)</b>	<b>5,578,532</b>

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
	2023	2022	2022
	Unaudited	Audited	
<b>Operating activities</b>			
Net comprehensive loss for the period	(3,614,449)	(3,502,733)	(8,002,612)
<b>Non-cash adjustments</b>			
Inventory write off	193,537	-	-
Depreciation of property and equipment	67,614	53,052	108,581
Depreciation of right of use asset	157,942	173,892	339,561
Share-based compensation	56,025	127,444	221,362
Amortisation of intangible assets	480,690	480,690	961,380
Amortisation of liabilities	(140,693)	(206,755)	(396,434)
Foreign exchange losses on cash balances	17,328	369,053	381,480
Revaluation of financial instruments, net	(212,120)	(1,149,960)	(984,001)
Expenses paid in shares and options	240,853	20,158	20,158
<b>Net changes in working capital</b>			
(Increase) decrease in trade receivables	(166,565)	272,270	246,526
(Increase) in inventories	(311,358)	(486,312)	(488,266)
(Increase) decrease in other current assets	(233,418)	6,701	(102,908)
Decrease in other long-term assets	1,165	3,189	3,267
Increase in trade payables	224,657	87,500	133,825
Increase (decrease) in other liabilities	127,872	(17,733)	(12,261)
<b>Net cash used in operating activities</b>	<b>(3,110,920)</b>	<b>(3,769,544)</b>	<b>(7,570,342)</b>
<b>Investing activities</b>			
Purchase of property and equipment	(148,766)	(193,177)	(258,838)
<b>Net cash used in investing activities</b>	<b>(148,766)</b>	<b>(193,177)</b>	<b>(258,838)</b>
<b>Financing activities</b>			
Proceeds from share subscription agreement	-	2,000,000	2,000,000
Proceeds allocated to ordinary shares	2,864,790	-	-
Proceeds allocated to warrants	132,544	-	-
Issuance costs	(185,249)	-	(9,952)
Proceeds from short term borrowings	956,382	100,283	527,790
Repayment of short-term borrowings	(970,872)	(448,630)	(493,338)
Repayment of lease liability	(99,524)	(216,288)	(158,849)
<b>Net cash provided by financing activities</b>	<b>2,698,071</b>	<b>1,435,365</b>	<b>1,865,651</b>
Net change in cash and cash equivalents	(561,615)	(2,527,356)	(5,963,529)
Cash and cash equivalents, beginning of year	715,815	7,060,824	7,060,824
Exchange differences on cash and cash equivalents	(17,328)	(369,053)	(381,480)
<b>Cash and cash equivalents, end of period</b>	<b>136,872</b>	<b>4,164,415</b>	<b>715,815</b>
<b>Supplementary information:</b>			
Interest paid during the period	38,499	6,049	13,321
Interest received during the period	76	1,418	1,507
<b>Supplementary information on non-cash activities:</b>			
Shares issued pursuant to share subscription agreement	246,521	-	384,485
Expenses paid in shares and warrants	240,853	20,158	20,158

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 firmware, PON MAC firmware 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 wireless backhaul with wireless link bonding, 5G UPF, 5G CU and vRouter offload 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 2023 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 2022. 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 2022.

The interim condensed financial statements for the half-year ended 30 June 2023 (including comparative amounts) were approved and authorized for issue by the board of directors on 19 September 2023.

### 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 2022 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.

As set out in the Company's annual report and the results for the year ended 31 December 2022, the Company is taking careful steps towards generating positive cash flow from its operations during FY2023, which includes a combination of the modified business model to focus on licensing and a reduction in costs. The delays in existing customer contracts, combined with the extended sales cycles

being experienced by the Company place significant uncertainty over the Company's ability to achieve the revenues previously targeted for FY2023. Whilst revenue is therefore expected to be lower than previously anticipated, the focus on the higher margin licensing contracts is expected to contribute to an improved gross margin once licensing sales commence and combined with the cost savings, an improved EBITDA.

Based on the above-mentioned description, 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. The directors recognize that their expectations are based on the success of the new business model as well as the Company succeeding to raise funds, however should events occur that could materially impact the forecasts and cashflows of the Company, a material uncertainty remains that may cast a significant 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 future.

#### NOTE 4 - SIGNIFICANT EVENTS

##### EQUITY RELATED TRANSACTIONS DURING THE ACCOUNTING PERIOD

During the 6 month period ended 30 June 2023, ordinary shares of the Company were issued, as follows:

	<u>Note</u>	<u>Number of ordinary shares</u>
Issuance of ordinary shares (issued together with warrants)	[1]	49,688,097
Shares issued pursuant to share subscription agreement	[2]	6,629,236
Expenses paid for in shares and warrants		2,388,771
		<u>58,706,104</u>

[1] Details of the equity raises are as follows:

##### January 2023 equity raise

In January 2023 the Company issued 23,571,430 shares with 23,571,430 warrants attached. Each share and attached warrant were issued for £0.07, realising gross proceeds of \$2.02 million (£1.65 million) and net proceeds after issuance expenses of approximately \$1.89 million (£1.54 million).

Each warrant was initially exercisable at £0.15 with a life term of approximately 24 months. The warrants are not transferable, are not traded on an exchange and have an accelerator clause, whereby these warrants may be called by the Company if the closing mid-market share price of the Company exceeded £0.20 over a 5-consecutive day period. If such 5-consecutive day period condition is met, the Company may serve notice on the warrant holders to exercise their relevant warrants within 7 calendar days, failing which, such remaining unexercised warrants shall be cancelled.

As the exercise price of the warrants is denominated in GBP and not in the Company's functional currency, it was determined that the Company's obligation under such warrants cannot be considered as an obligation to issue a fixed number of equity instruments in exchange for a fixed amount of cash. Accordingly, it was determined that such warrants represent a derivative financial liability required to be accounted for at fair value through

the profit or loss category. Upon initial recognition the Company allocated the gross proceeds as follows: an amount of approximately \$133,000 was allocated as a derivative warrants liability with the remainder of the proceeds amounting to \$1.75 million (after deduction of the allocated issuance costs of \$0.14 million) being allocated to share capital and share premium. The issuance expenses were allocated in a consistent manner to the above allocation. The expenses related to the warrant component were carried to profit or loss as an immediate expense while the expenses related to the share capital component were netted against the amount carried to equity. In subsequent periods the company measures the derivative financial liability at fair value and the periodic changes in fair value are carried to profit or loss under financing costs or financing income, as applicable. The fair value of the derivative warrant liability is categorized as level 3 of the fair value hierarchy.

The fair value valuation of the warrants was based on the Black-Scholes option pricing model, calculated in two stages. Initially, the fair value of these call warrants issued to investors were calculated, assuming no restrictions applied to such call warrants. As the Company, under certain circumstances, has a right to force the investors to either exercise their warrants or have them cancelled, the second calculation calculates the value of the warrants as call warrants that were issued by the investor to the company. The net fair value results from reducing the call investor warrants fair value from the call warrants fair value, as long as the intrinsic value of the call warrants (share price at the period end less exercise price of the warrants) is not greater than such value. Should the intrinsic value of the warrants be higher than the Black-Scholes two stage method described above, then the intrinsic value of the warrants is considered to be a more accurate measure to use in determining the fair value. The following factors were used in calculating the fair value of the warrants at their issuance:

Risk free rate	4.2%
Volatility	82.3%

In May 2023, the Company changed the terms of the warrants as follows:

	<b>Changed:</b>	<b><u>From</u></b>	<b><u>To</u></b>
Exercise price of warrants		£ 0.15	£ 0.060
Share price at which accelerator clause may be activated		£ 0.20	£ 0.075

Of the 23,571,430 shares and 23,571,430 warrants subscribed for, the director's participation in this issuance was 3,697,342 shares and 3,697,342 warrants, on the same terms that outside investors participated.

None of these warrants had been exercised by 30 June 2023 and their fair value of approximately \$27,000 at such date is disclosed as a warrants liability in the statement of financial position,

Upon this successful equity raise being concluded, the brokers for this transaction received 573,429 two year warrants exercisable at £0.07 per warrant. The fair-value of these warrants at the time of issuance was approximately \$23,000. As at 30 June 2023, none of these warrants have been exercised.

### **May 2023 equity raise**

In May 2023 the Company issued 26,116,667 shares at £0.03 per share, realising gross proceeds of \$0.98 million (£0.78 million) and net cash proceeds after issuance expenses paid out of \$0.92 million (£0.74 million).

Of the 26,116,667 shares subscribed for, the director's participation in this issuance was 916,668 shares, on the same terms that outside investors participated.

The gross proceeds, after deduction of the issuance costs of \$54,000, were allocated to share capital and share premium.

Upon this successful equity raise being concluded, the brokers for this transaction received 772,500 two year warrants exercisable at £0.03 per warrant. The fair-value of these warrants at the time of issuance was approximately \$14,000. As at 30 June 2023, none of these warrants have been exercised.

## [2] Shares issued pursuant to the share subscription agreement

In February 2022, an institutional investor signed a follow-on share subscription agreement with the Company, subscribing for a further \$2.0 million, with a total face value of \$2,060,000. In March 2022 the full \$2.0 million was funded as a prepayment for the subscription shares.

The number of subscription shares to be issued is determined by dividing the face value of the subscription amount by the Settlement Price.

The Settlement Price is equal to the sum of (i) the Reference Price and (ii) the Additional Price.

The Reference Price is the average of the 3 daily volume-weighted average prices ("VWAPs") of Shares selected by the Investor 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. The Additional Price is equal to half of the excess of 85% of the average of the daily VWAPs of the Shares during the 3 consecutive trading days immediately prior to the date of notice of their issue over the Reference Price.

The investor converted the following subscription amount during the 6 month period ended 30 June 2023 as follows:

<u>Notice date of conversion</u>	<u>Amount converted - USD</u>	<u>Shares Issued</u>
21 May 2023	230,000	6,629,236

As described above, the investor converts subscription amounts into shares of the Company at a discounted price. Upon each conversion, the difference between the actual market value of shares issued to the investor and the amount converted, is recorded in finance costs, which in the 6 month period ended 30 June 2023 amounted to approximately \$16,000.

## NOTE 5 - INVENTORIES

	<u>US dollars</u>		
	<u>30 June</u>	<u>31 December</u>	
	<u>2023</u>	<u>2022</u>	<u>2022</u>
	<u>Unaudited</u>		<u>Audited</u>
Components and raw materials	731,039	645,852	613,218
Finished cards	159,858	125,270	159,858
<b>Total inventories</b>	<b>890,897</b>	<b>771,122</b>	<b>773,076</b>

**NOTE 6 - FINANCING COSTS**

	US dollars		
	Six months ended		Year ended
	30 June		31 December
	2023	2022	2022
	Unaudited	Audited	
Bank fees and interest	48,170	20,321	35,150
Lease liability financial expenses	104,742	114,244	227,246
Revaluation of liability related to share subscription agreement measured at FVTPL	-	60,000	230,992
Expenses allocated to issuing warrants	10,096	-	-
Expenses allocated to share subscription agreement	-	80,000	80,000
<b>Total financing costs</b>	<b>163,008</b>	<b>274,565</b>	<b>573,388</b>

**NOTE 7 - FINANCING INCOME**

	US dollars		
	Six months ended		Year ended
	30 June		31 December
	2023	2022	2022
	Unaudited	Audited	
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	80,034	-	-
Revaluation of warrant derivative liability	105,329	1,209,960	1,214,993
Interest received	76	1,418	1,507
Exchange rate differences, net	137,375	38,485	51,152
<b>Total financing income</b>	<b>322,814</b>	<b>1,249,863</b>	<b>1,267,652</b>

**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		Year ended
	30 June		31 December
	2023	2022	2022
	Unaudited	Audited	
Asia	54,700	42,800	290,800
Europe	12,390	-	131,000
Israel	137,912	149,403	429,954
United States	1,193,869	512,650	2,085,670
	<b>1,398,871</b>	<b>704,853</b>	<b>2,937,424</b>

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



	Six months ended		Year ended
	30 June		31 December
	2023	2022	2022
	Unaudited		Audited
Asia	3.9%	6.1%	9.9%
Europe	0.9%	-	4.5%
Israel	9.9%	21.2%	14.6%
United States	85.3%	72.7%	71.0%
	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.