Annual standalone financial statements of Silvair, Inc.

Kraków, 6 April 2020

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All figures, unless indicated otherwise, are expressed in thousands of USD.

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General information

Company

Name:	**Silvair, Inc.**
Registered office:	**717 Market Street, Suite 100, San Francisco, CA 94103, USA**
Core business:	**IT business**
Registration authority:	**Secretary of State, Delaware Department of State, Delaware Corporate Number 5543093**
EIN: (Employer Identification Number)	**43-2119611**
Company's duration:	**Unlimited**

Description of business activity

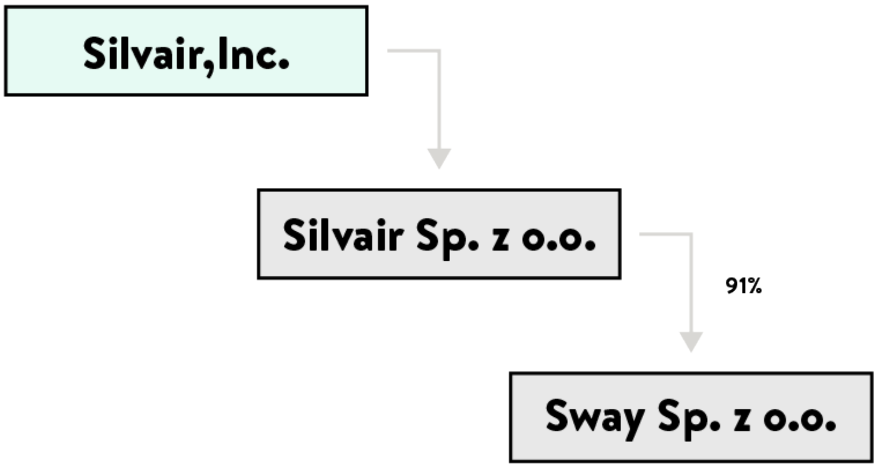
The Issuer is an entity operating in the field of new technologies focusing on the Internet of Things (IoT). The Group has developed an innovative technology for wireless communication of devices in the mesh topology and is currently launching in the global market a product in the form of software and services with special focus on smart lighting systems. The Group's strategic goal is to achieve a leading position on the market of modern technology solutions in the area of IoT, using the Bluetooth Mesh standard technology. The main factor contributing to our competitive advantage is our participation and the role we play in the Bluetooth Special Interest Group (Bluetooth SIG), organization supervising the development of standards. In 2014, the organization formed a task force under the name Mesh Working Group, aiming to develop a new version of the Bluetooth protocol, supporting wireless exchange of data in the mesh network topology. The Issuer has made a significant contribution to the work of this organization, both in the intellectual and organizational dimension, and many of the solutions developed earlier by the Issuer have been adopted to the protocol specification, becoming the foundation of the new Bluetooth Mesh standard, published by Bluetooth SIG in 2017.

The Group's market expansion is based on the following products: Silvair Mesh Stack, i.e. firmware to be installed directly in devices forming part of smart lighting infrastructure, and the Silvair Platform, a technology and service platform designed to be implemented in commercial spaces.

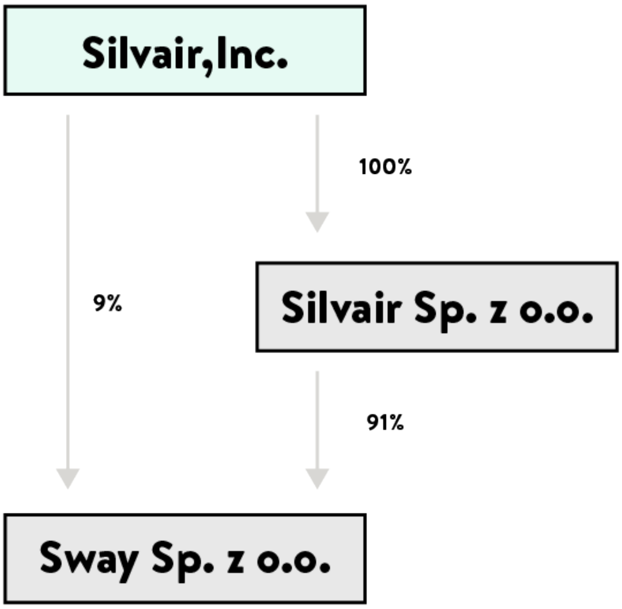
The Group has business presence on the global market, especially on the North American market and in Europe.

The Group

The structure of the Group as at 31.12.2019



As at the publication date, 100% of the shares in Sway Sp. z o.o. are owned by the Group. On 7 January 2020, an agreement on transfer of 6,200 shares in Sway was signed between ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k and Silvair, Inc. As of that date, Silvair Sp. z o.o. holds 90.9% and Silvair, Inc. holds 9.1% shares in Sway Sp. z o.o.



All figures, unless indicated otherwise, are expressed in thousands of USD.

Functional and presentation currency

The standalone financial statements are presented in the US dollar (USD), which is the Company's functional currency; unless otherwise stated, all figures are expressed in thousands of American dollars ("USD '000s").

The entity adopts as an immediate exchange rate the average exchange rate of the National Bank of Poland USD / PLN.

Presentation periods

The standalone financial statements have been prepared as at 31 December 2019 and cover the period of 12 months, i.e. from 1 January 2019 to 31 December 2019.

For the data presented in the statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2018.

For the data presented in the standalone profit and loss account, statement of comprehensive income, statement of changes in equity and cash flow statement, comparative financial data were presented for the period from 1 January 2018 to 31 December 2018.

Going concern assumption

The statements have been drawn up based on the going concern assumption for the foreseeable future.

However, in connection with the coronavirus pandemic, the Management Board has identified a risk of disruptions in sales caused by disruptions of the chain of supply of lighting components to the Company's subsidiaries' cooperating partners, as well as postponement of investments associated with replacement of the lighting infrastructure by customers due to the widespread lockdown. In addition, the Management Board notes major difficulties with access to capital, which at this stage of commercialization of the subsidiaries' products, is an important source of financing of their day-to-day activity.

Considering that the Company's main asset, in addition to the shares held, are the loans granted to the subsidiaries, this situation may raise concerns regarding the Company continuing as a going concern. A number of actions have been taken in the subsidiaries to eliminate these threats.

Consequently, a pertinent revision of the 2020 sales assumptions has been made, which will contribute to delaying the breakeven point in the subsidiaries and affect their capability to generate cash.

At the same time, in connection with the reduced marketing and sales activity, the Management Board has recommended that the subsidiaries reduce the operating expenses, among others through reduction of headcount and change of the terms of compensation for the Group's key employees and collaborators, required to execute the Group's strategy and maintain its competitive advantage. As at the publication date, the companies have already taken such measures. The operating expenses optimization process was planned in such a way as not to disrupt the Group's product development and contacts with key partners, and make it possible to immediately restore market activity after the pandemic effects pass.

As at the date of preparation of these statements, the Company in principle finances its operations from the issue of debt securities convertible into the Company's common shares (Convertible Promissory Note). As part of the total maximum issue amount of USD 5.5 million approved by the Board of Directors, the issues of Convertible Securities are effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("United States Securities Act") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues.

As at the date of preparation of these statements the Company issued Convertible Securities with the total par value of USD 3.412 million. After the limit of the current issue is exhausted the Company intends to carry out another issue of Convertible Securities and a new issue of the Company's shares. In accordance with earlier disclosures, the Company retains the ability to issue and apply for the listing of approx. 1.4 million common shares without the need to publish a new prospectus, the approval of which would require the conduct of separate proceedings before the Polish Financial Supervision Authority (KNF). The Management Board estimates that the funds that can be raised in this form will range from USD 1 to 2 million.

In the context of the difficulties with access to capital caused by the coronavirus pandemic, the cost-cutting measures taken by the Management Board are also aimed at reducing the demand for capital needed to finance the day-to-day operations and thus expedite reaching the breakeven and self-financing point by the Group. In the opinion of the Company's Management Board, these measures will be successful.

Composition of the corporate bodies of the Parent Company as at 31 December 2019

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President, Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Marek Kapturkiewicz — Director

Officers:

Rafał Han — Chief Executive Officer

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

On February 4 2020, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company's Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-executive director, member of the Board of Directors, and a member of the Company's Audit Committee. The Issuer informed about this change in Current Report No. 3/2020 of 7 February 2020.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Composition of the corporate bodies of the Parent Company as at for a day of publication:

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President,

Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Christopher Morawski — Director

Officers:

Rafał Han — Chief Executive Officer

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

Selected financial data

Average USD to EUR exchange rates in the periods covered by the consolidated financial statements are calculated as a quotient of the EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland:

Average USD/EUR exchange rates in the periods covered by the annual financial statements:

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
1 January 2019 – 31 December 2019	1.1190	1.0893	1.1524	1.1213
1 January 2018 – 31 December 2018	1.1798	1.1235	1.2528	1.1437

Average USD/PLN exchange rates in the periods covered by the annual financial statements:

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
1 January 2019 – 31 December 2019	0.2601	0.2490	0.2685	0.2633
1 January 2018 – 31 December 2018	0.2762	0.2613	0.3014	0.2660

The individual items of assets and liabilities and equity in the standalone statement of financial position have been translated using an exchange rate calculated as a quotient of the EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland in effect on the last day of the period.

All figures, unless indicated otherwise, are expressed in thousands of USD.

The individual items of the standalone profit and loss account and the standalone cash flow statement have been translated using an exchange rate calculated as a quotient of the exchange rates constituting an arithmetical mean of the average EUR/PLN and USD/PLN exchange rates published by the National Bank of Poland as at the last day of each month in the reporting period.

Selected financial data translated as at the balance sheet date:

For line items of the profit and loss account and the cash flow statement

Item	USD		EUR		PLN	
	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018	1 Jan 2019 – 31 Dec 2019	1 Jan2018 – 31 Dec 2018	1 Jan 2019 – 31 Dec 2019	1 Jan 2018 – 31 Dec 2018
Net revenue on the sale of products, goods and materials	0	0	0	0	0	0
Profit/(loss) from operating activities	-897	-463	-784	-392	-3 371	-1 677
Profit (loss) before tax	-679	-328	-589	-278	-2 533	-1 188
Profit (loss) of the period	-702	-342	-609	-290	-2 622	-1 238
Net cash flows from operating activities	- 730	-602	-652	-510	-2 806	-2 180
Net cash flows from investing activities	-3 743	-4 241	-3 345	-3 595	-14 388	-15 357
Net cash flows from financing activities	2 913	6 923	2 603	5 868	11 198	25 069
Total net cash flows	-1 560	2 080	-1 394	1 763	-5 997	7 532

All figures, unless indicated otherwise, are expressed in thousands of USD.

For items of the statement of financial position

Item	USD		EUR		PLN	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Total assets	21 348	18 745	19 038	16 390	81 079	70 476
Liabilities and provisions for liabilities	3 029	55	2 701	48	11 503	207
Non-current liabilities	0	0	0	0	0	0
Current liabilities	3 029	55	2 701	48	11 503	207
Equity	18 319	18 690	16 337	16 342	69 570	70 269
Share capital	1 143	1 138	1 019	995	4 341	4 278
Number of shares	11 425 670	11 380 420	11 425 670	11 380 420	11 425 670	11 380 420
Weighted average number of shares	11 403 045	10 556 458	11 403 045	10 556 458	11 403 045	10 556 458
Earnings/(loss) per share (in USD and EUR)	-0.06	-0.03	-0.05	-0.03	-0.23	-0.11
Book value per share (in USD and EUR)	1.60	1.77	1.43	1.55	6.10	6.66

Representation by the Board of Directors

These standalone financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 1 January 2019.

Representations by the Board of Directors on the preparation and publication of the financial statements for 2019 are presented in the Report by the Board of Directors of Silvair, Inc. on the activity of the Silvair Group and Silvair, Inc. for 2019.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Annual standalone financial statements of Silvair, Inc.

Annual standalone statement of financial position

	Note No.	31 Dec 2019	31 Dec 2018
A. Non-current assets		**11 906**	**16 280**
I. Costs of development work		-	-
II. Other intangible assets		-	-
III. Property, plant and equipment	1	-	-
IV. Right-of-use asset		-	-
V. Financial assets	2	11 461	15 835
VI. Right to shares	2.1	445	445
VII. Deferred tax assets		-	-
B. Current assets		**9 442**	**2 465**
I. Inventory		-	-
II. Trade receivables		-	-
III. Other receivables		-	-
IV. Prepayments and accruals	3.3	16	-
V. Financial assets	3.1	8 521	-
VI. Cash and cash equivalents	3.2	905	2 465
VII. Aktywa przeznaczone do sprzedaży		-	-
Total assets		**21 348**	**18 745**

All figures, unless indicated otherwise, are expressed in thousands of USD.

	Note No.	31 Dec 2019	31 Dec 2018
A. Equity		**18 319**	**18 690**
I. Share capital	**4**	1 143	1 138
II. Capital from revaluation of options	**5**	375	155
III. Other capital	**6.1**	21 016	20 910
IV. Retained earnings	**7**	-3 513	-3 171
V. Financial result of the current period		-702	-342
B. Non-current liabilities		-	-
I. Deferred tax liabilities		-	-
II. Lease liabilities		-	-
III. Other non-current liabilities		-	-
C. Current liabilities		**3 029**	**55**
I. Trade liabilities	**9.1**	55	55
II. Liabilities from contracts with customers		-	-
III. Lease liabilities		-	-
IV. Liabilities on bonds convertible to shares	**9.2**	2 954	-
V. Other current liabilities		-	-
VI. Other short-term provisions	**9.3**	20	-
VII. Prepayments and accruals		-	-
Equity and liabilities		**21 348**	**18 745**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Annual standalone profit and loss account and standalone statement of comprehensive income

Standalone profit and loss account		Note No.	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
A.	**Revenue**		-	-
B.	**Cost of sales**		-	-
C.	**Gross sales result**		-	-
	I. Selling and distribution expenses	**11**	178	14
	II. General and administrative expenses	**11**	699	449
D.	**Net result on sales**		**-877**	**-463**
	I. Other operating income		-	-
	II. Other operating expenses	**11.1**	20	1
E.	**Operating result**		**-897**	**-463**
	I. Financial income	**12**	331	204
	II. Financial costs	**13**	113	69
F.	**Result before tax**		**-679**	**-328**
	I. Income tax	**14**	23	14
	current part		23	14
	deferred part		-	-
G.	**Profit/(loss) for the period**		**-702**	**-342**

All figures, unless indicated otherwise, are expressed in thousands of USD.

	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Net earnings/(loss) per share (in USD)	-0.06	-0.03
Diluted earnings/(loss) per share (in USD)	-0.06	-0.03

Annual standalone statement of other comprehensive income	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Profit/(loss) for the period	-702	-342
Other comprehensive income	-	-
1. Other comprehensive income to be reclassified to result in the future	-	-
foreign exchange differences from translation of foreign operations	-	-
2. Other comprehensive income not to be reclassified to result in the future	-	-
Total comprehensive income	-702	-342

All figures, unless indicated otherwise, are expressed in thousands of USD.

Annual standalone statement of changes in equity

Standalone statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Retained earnings	Financial result	Total equity
At the beginning of the period 1 January 2019	**1 138**	**155**	**20 910**	**-3 958**	**-**	**18 245**
Correction of errors	-	-	-	445	-	445
At the beginning of the period 1 January 2019, corrected	**1 138**	**155**	**20 910**	**-3 513**	**-**	**18 690**
Exercise of stock options for Company shares	1	-108	104	-	-	-3
Issue of new shares as part of the stock plan	4	-2	2	-	-	4
Valuation of stock options under IFRS 2	-	330	-	-	-	330
Expenditures incurred in connection with the stock issue	-	-	-	-	-	-
Bonds convertible to shares classified as equity instruments	-	-	-	-	-	-
Total transactions with owners	**5**	**220**	**106**			**331**
Net profit (loss) for the period from 1 January to 31 December 2019	-	-	-	-	-702	-702
Other comprehensive income after tax for the period from 1 January to 31 December 2019	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-702**	**-702**
At the end of the period 31 December 2019	**1 143**	**375**	**21 016**	**-3 513**	**-702**	**18 319**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Standalone statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Retained earnings	Financial result	Total equity
At the beginning of the period 1 January 2018	**973**	**287**	**15 051**	**-4 004**	**-**	**12 307**
Correction of errors	-	**-264**	-	**287**	-	**23**
At the beginning of the period 1 January 2018, corrected	**973**	**23**	**15 051**	**-3 718**	**-**	**12 329**
Exercise of stock options for Company shares	2	-34	32	-	-	-
Issue of new shares as part of the stock plan	119	-	5 325	-	-	5 444
Valuation of stock options under IFRS 2	-	166	-	-	-	166
Expenditures incurred in connection with the stock issue	-	-	-924	-	-	-924
Bonds convertible to shares classified as equity instruments	44	-	1 426	547	-	2 017
Total transactions with owners	**165**	**132**	**5 859**	**547**		**6 703**
Net profit (loss) for the period from 1 January to 31 December 2018	-	-	-	-	-342	-342
Other comprehensive income after tax for the period from 1 January to 31 December 2018	-	-	-	-	-	-
Total comprehensive income	**-**	**-**	**-**	**-**	**-342**	**-342**
At the end of the period 31 December 2018	**1 138**	**155**	**20 910**	**-3 171**	**-342**	**18 690**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Annual standalone statement of cash flows

	Note No.	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Profit (loss) before tax		**-679**	**-328**
Adjustments for:		**-51**	**-274**
1. Depreciation and amortization	**11**	-	5
2. Foreign exchange gains (losses)		-1	69
3. Interest and profit sharing (dividends)		-331	-51
4. Movement in inventory		20	-
5. Movement in receivables		-	-
6. Movement in current liabilities, except for loans and borrowings		42	55
7. Tax paid		-23	14
8. Movement in prepayments and accruals		-16	-
9. Other adjustments resulting from operating activity	**3.2.1**	258	-366
Net cash from operating activities		**-730**	**-602**
Proceeds		331	-
1. Disposal of intangible assets and property, plant and equipment		-	-
2. From financial assets, including:		331	-
in related entities		331	-
in other entities		-	-
Expenditures		4 074	4 241
1. Purchase of intangible assets and property, plant and equipment		-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

2. Expenditures incurred for development work	-	-
3. For financial assets, including:	4 074	4 241
Loans to related entities	4 074	4 241
Net cash from investing activities	**-3 743**	**- 4 241**
Proceeds	2 913	6 923
1. Net proceeds from issuing shares and additional capital contributions	1	6 872
2. Loans and borrowings drawn	-	-
3. Proceeds from debt securities	2 912	-
4. Interest	-	51
Expenditures	-	-
1. Repayment of loans and borrowings	-	-
2. Repayment of lease liabilities	-	-
3. Interest	-	-
Net cash from financing activities	**2 913**	**6 923**
Net cash flows	**-1 560**	**2 080**
Movement in cash	**-1 560**	**2 080**
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**2 465**	**385**
Cash and cash equivalents at the end of the period	**905**	**2 465**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Explanatory notes to the annual standalone financial statements

Corrections of prior period errors

Type of error

In 2019, the Company effected a retrospective correction of an error made in the previous reporting period. The error pertained to failure to disclose the rights to the shares in Sway sp. z o.o., which Silvair, Inc. obtained in 2018.

In performance of the investment agreement dated 28 March 2018 concluded between, among others, Sway sp. z o.o. and ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. (hereinafter "ASI Bridge"), on 18 May 2018 ASI Bridge acceded to Sway and took up 6,200 (six thousand two hundred) indivisible common shares in SWAY ("Shares"), created through increasing SWAY's share capital and taken up for a cash contribution of PLN 1,600,000 (USD 427 thousand, as at the take-up date). The par value of the Shares was PLN 310,000. The investment agreement provided for ASI Bridge's divestment of Sway and transfer of the shares to Silvair, Inc. On 18 May 2018, Silvair, Inc. and ASI Bridge entered into a share exchange dispositive agreement under which ASI Bridge undertook to transfer the ownership of to the Shares to Silvair, Inc. immediately after the competent registration court registers SWAY's share capital increase in which the Shares were created, in return for transfer by Silvair, Inc. of the title to convertible notes ("Notes") with the value corresponding to the USD equivalent of PLN 1,600,000, translated at the average NBP exchange rate from the date of signing the convertible promissory note document, convertible into Silvair, Inc.'s shares. As part of the initial public offering (IPO) of Silvair, Inc. at the Warsaw Stock Exchange, which took place on 26 July 2018, the said Notes received by ASI Bridge were converted into Silvair, Inc.'s shares, as a result of which ASI Bridge became the owner of 91,722 shares of Silvair, Inc. On 22 June 2018, all conditions for the acquisition of the Shares by Silvair, Inc. were satisfied, however, for reasons independent of the Company, ASI Bridge did not transfer the Shares to Silvair, Inc. in 2018 and 2019. Consequently, the Company made successive actions aimed at bringing about the intended result. Among other things, on 2 September 2018, and again on 2 January 2020, Silvair, Inc. summoned ASI Bridge to perform its obligation of divestment of Sway sp. z o.o. and transfer of the legal title to the Shares. As a consequence of the actions taken by the Company, the agreement transferring the ownership of the Shares in Sway from ASI Bridge to Silvair, Inc. was entered into on 7 January 2020.

Due to the fact that the company did not take into account in 2018 the obtained right to the Shares, it was justified to make a correction with the effects presented below. The Company did not take into account in 2018 the obtained right to the shares in Sway and the value of the taken up shares was covered with corrections in the results of previous years. The consequences of the correction are described below.

Impact on the standalone financial statements

Statement of financial position as at 31 December 2018	
Item	**Amount**
Right to shares	444 542.07
Retained earnings	444 542.07

All figures, unless indicated otherwise, are expressed in thousands of USD.

Impact on earnings (loss) per share

The change did not have any impact on the profit (loss) for 2018 and hence did not impact the earnings (loss) per share.

Impact on the financial statements

Statement of financial position (USD '000s)	Year 2018 published	Change	Year 2018 corrected
A. Non-current assets	**15 835**	**445**	**16 280**
I. Costs of development work	-	-	-
II. Other intangible assets	-	-	-
III. Property, plant and equipment	-	-	-
IV. Financial assets	11 461	-	15 835
V. Right to shares	-	445	445
VI. Deferred tax assets	-	-	-
B. Current assets	**2 465**	**-**	**2 465**
I. Inventory	-	-	-
II. Trade receivables	-	-	-
III. Other receivables	-	-	-
IV. Prepayments and accruals	-	-	-
V. Financial assets	-	-	-
VI. Cash and cash equivalents	2 465	-	2 465
Total assets	**18 300**	**445**	**18 745**

All figures, unless indicated otherwise, are expressed in thousands of USD.

	Year 2018 published	Change	Year 2018 corrected
A. Equity	**18 245**	**445**	**18 690**
I. Share Capital	1 138	-	1 138
II. Capital from revaluation of options	155	-	155
III. Other capital	20 910	-	20 910
IV. Retained earnings	-3 616	445	-3 171
V. Financial result of the current period	-342	-	-342
B. Non-current liabilities	**-**	**-**	**-**
I. Deferred tax liabilities	-	-	-
II. Other non-current liabilities	-	-	-
C. Current liabilities	**55**	**-**	**55**
I. Trade liabilities	55	-	55
II. Other short-term provisions	-	-	-
III. Prepayments and accruals	-	-	-
Equity and liabilities	**18 300**	**445**	**18 745**

Compliance with International Financial Reporting Standards

These annual standalone financial statements have been prepared in accordance with the International Financial Reporting Standards and interpretations issued by the International Accounting Standards Board approved by the European Union effective for annual periods beginning on 1 January 2019

The EU IFRS include the standards and interpretations accepted by the International Accounting Standards Board (IASB) and International Financial Reporting Standards Interpretations Committee (IFRIC).

Amendments to standards or interpretations

New or amended standards and interpretations that have been in force since 1 January 2019 and their impact on the standalone financial statements:

All figures, unless indicated otherwise, are expressed in thousands of USD.

- New IFRS 16 “Leases”

  The new standard replaces IAS 17 and several interpretations. Apart from the change of the definition of lease, the standard introduces changes in lessees’ accounting: it requires that the balance sheet recognizes, for every lease contract, the value of the “right-of-use asset” and the corresponding financial liability. The right-of-use asset is then amortized, while the liability is measured at amortized cost.

The new standard has no impact on the Company’s financial statements because the Company is not a party to agreements subject to it.

- New IFRIC 23 “Uncertainty over Income Tax Treatments”

  This interpretation for IAS 12 “Income Tax” unifies the approach to situations in which interpretation of income tax regulations is not clear and there is no definitive answer whether taxation authorities or courts accept the company’s tax treatment The management should first assess whether its interpretation is likely to be accepted by tax authorities. If it is then such an interpretation should be adopted for the preparation of the financial statements. If it is not then uncertainty associated with the income tax-related amounts should be taken into account using the most likely amount or the expected value. The company should reassess the assumed amount if facts and circumstances affecting it change. If the amount is adjusted then it is treated as a change in an accounting estimate in accordance with IAS 8.

The Company did not have any transactions whose recognition raised tax doubts.

- New IFRS 9 “Financial Instruments”

  This amendment enabled the entity to account as “assets measured at amortized cost” some prepayable instruments with the so-called negative compensation (meaning that upon prepayment the entity would receive less than the sum of principal and accrued interest).

  Amendment of this standard did not affect to the financial statements since there were no transactions affected by these changes.

Other amendments introduced in 2019:

- Amendment to IAS 28 “Investments in Associates and Joint Ventures”

  These amendments to the standard clarify that IFRS 9 should be applied to financial instruments other than those measured using the equity method in affiliates and joint ventures, even if such instruments are a component of net investment in such entities.

  The amendment to the standard did not affect the financial statements because the Company does not have such financial instruments.

- Amendments to IAS 12 “Income Taxes”, IAS 23 “Borrowing Costs”, IFRS 3 “Business Combinations” and IFRS 11 “Joint Arrangements”

Minor amendments to standards, introduced as part of annual changes in standards (2015-2017 cycle)

- IAS 12: The International Accounting Standards Board clarified the manner of recognition of income tax charged on dividends. The tax is recognized upon recognition of the obligation to pay the dividend as a charge on the result or other comprehensive income or equity, depending on where the past transactions that generated the result were recognized.
- IAS 23: It was clarified that debt originally allocated to the financing of an asset that has already been completed is included in general debt, the cost of which may be capitalized later in the value of other assets.
- IFRS 3: The International Accounting Standards Board clarified that the rules regarding the settlement of mergers between undertakings implemented in stages, including the need to value shares, apply also to shares previously held in joint businesses
- IFRS 11: The Board clarified that a shareholder in a joint venture that does not exercise joint control is not required, in a situation where such shareholder assumes joint control over the joint venture, to revalue the shares in such joint venture

These amendments did not materially affect the financial statements because:

  - The Company is not a party to transactions subject to the amendment to IAS 12,
  - all adjustments of an assets of a significant value are financed by the Company using funds acquired externally especially for that purpose,
  - The Company does not conduct any joint activities within the meaning of IFRS 11.

- Amendments to IAS 19 “Employee Benefits”

  In accordance with the amendment, if a net asset or liability under a defined benefit plan is remeasured as a result of an amendment, curtailment or settlement, the entity should determine the current service cost and the net interest for the period after the remeasurement using the assumptions used for the remeasurement and determine net interest for the remaining period based on the remeasured net asset or liability.

The amendment to the standard did not affect the financial statements because the Company does not offer defined benefit plans to employees for the post-employment period.

The standards and interpretations published by the IASB but not endorsed by the European Union are indicated below in the section on standards and interpretations that have not entered into force.

Application of a standard or interpretation prior to its entry into force

In these standalone financial statements, no voluntary early application of any standard or interpretation has been applied.

Published standards and interpretations that have not entered into force for periods starting 1 January 2019 and their impact on the Company’s consolidated financial statements.

Until the date of preparation of these standalone financial statements, certain new or amended standards and interpretations have been published as applicable to annual periods following 2019. The list also

All figures, unless indicated otherwise, are expressed in thousands of USD.

includes amendments, standards and interpretations that have been published but not yet endorsed by the European Union.

- New IFRS 17 “Insurance Contracts”

  The new standard regulates the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces the IFRS 4 applied previously.

  The Company estimates that the new standard will not affect its financial statements because it does not conduct insurance activity.

- Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”

  The amendment entails the introduction of a new definition of the term “material” (in respect to an omission or misstatement in the financial statements). The previous definition included in IAS 1 and IAS 8 differed from the one included in the Conceptual Framework for Financial Reporting, which could cause difficulty in judgments made by the entity preparing the financial statements. The amendment will cause unification of definitions in all the applicable IASs and IFRSs.

  The Company estimates that the new standard will not affect its consolidated financial statements because the previous judgments regarding materiality were consistent with the ones that would have be made using the new definition.

These amendments are effective for annual periods beginning on or after 1 January 2020.

- Amendments to IFRS 3 “Business Combinations”

  The amendment concerns the definition of a business and covers mainly the following matters:

  - it clarifies that to be considered a business, an acquired set of activities and assets must include an input and a material process that together significantly contribute to the ability to create outputs;
  - narrows the definitions of outputs and thereby also of a business by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs;
  - adds guidance and illustrative examples to help entities assess whether a material process has been acquired;
  - removes the assessment of whether it is possible to replace any missing inputs or processes and continue to operate a business in order to produce outputs; and
  - adds an optional possibility of conducting a simplified assessment of whether an acquired set of activities and assets is not a business.

  These amendments apply to business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of assets effected in or after this reporting period. Accordingly, the amendment in question will not affect the data presented in the Company’s existing financial statements. As of now, the Company is not able to predict any future business acquisition transactions.

- Amendments to References to the Conceptual Framework in IFRS

  The Board has prepared a revised version of the conceptual framework for financial reporting. Consequently, for the sake of consistency, the references to the conceptual framework contained in individual standards have been adapted accordingly.

  The amendments are effective for annual periods beginning on or after 1 January 2020 and, in the Company's assessment, will not impact its financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

  The IAS Board has introduced amendments to hedge accounting principles in connection with the planned reform of benchmark interest rates (WIBOR, LIBOR etc.). These rates are often the hedged position e.g. in the case of IRS hedging. The planned replacement of the existing rates with new benchmark rates has caused doubts as to whether a forecast transaction is still highly probable, whether future hedged cash flows are still expected to occur or whether there is an economic link between the hedged and the hedging position. The amendment to the standards has specified that the estimations should assume that changes to benchmark rates will not occur. Since the company does not use hedge accounting, the uncertainty associated with derivative instruments based on interest rates will not have influence on its financial statements.

- Amendments to IAS 1 "Presentation of Financial Statements"

  The IAS Board has specified the principles for classification of liabilities as current and non-current, primarily in two aspects:

  - it has been specified that the classification depends on the rights that the company has as at the balance sheet date,
  - the management's intentions with regard to expediting or delaying the payment of the liability are not taken into consideration.

  These amendments are effective for annual periods beginning on or after 1 January 2022. The Company is analyzing the impact of the amendments on its financial statements.

The Company intends to apply the said regulations on the dates set as the dates of application for the respective standards or interpretations.

Description of accepted accounting policies

These standalone financial statements have been prepared in accordance with the historical cost principle.

Translation of items in foreign currencies

Transactions captured in the ledgers of the Parent Company Silvair, Inc. denominated in currencies other than USD are translated into US dollars at the rate effective on the transaction date. As at the balance sheet date, monetary assets and liabilities expressed in currencies other than USD are translated into US dollars using the average exchange rate for such a currency in effect at the end of the reporting period.

The Company has adopted the following PLN/USD exchange rates for the purposes of balance sheet measurement:

	31 December 2019	31 December 2018
PLN/USD	**0.2601**	**0.2660**

Average PLN/USD exchange rates for individual financial periods were as follows:

	Year ended 31 December 2019	Year ended 31 December 2018
PLN/USD	0.2633	0.2762

Property, plant and equipment

The Company recognizes as fixed assets: individual items fit for use that meet the criteria defined for fixed assets in IAS 16, if the purchase price (production cost) is at least USD 3,500.

Fixed assets worth less than USD 3,500 are depreciated or written off in full in the month of their purchase, unless, due to the specific nature of the Company's operations, they constitute in aggregate a significant asset.

Property, plant and equipment is initially recognized at cost (purchase price or production cost) less depreciation charges and impairment losses in subsequent periods. Costs of external financing related directly to the acquisition or production of assets that require a longer period of time to become fit for use or resale are added to the production cost of such fixed assets only if non-recognition of such costs would materially affect the reliability and clarity of presentation of its assets. Such costs are added at the moment financing is incurred for the construction of fixed assets until the moment such fixed assets are put into use. Modernization costs are included in the carrying amount of fixed assets when it is probable that the Company would accrue economic benefits on this account and the costs incurred for modernization can be measured reliably.

All other expenses incurred on repair and maintenance of fixed assets are charged to the profit and loss account in the reporting periods in which they were incurred.

The Company also classifies the following as fixed assets: fixed assets under construction and investments in third party fixed assets and the right of perpetual usufruct of land.

Depreciation is calculated for all fixed assets, except for land and fixed assets under construction, for the estimated period of useful life of those assets, using the straight line method, starting in the month following the month, in which the asset is accepted for use.

The estimated useful lives for each group of fixed assets are as follows:

All figures, unless indicated otherwise, are expressed in thousands of USD.

Buildings and structures:	10 years
Plant and machinery:	2-10 years
Other fixed assets:	2 years

The Company verifies periodically, no later than at the end of the financial year, the assumed useful lives of fixed assets, residual value and depreciation methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively). As at the balance sheet date, the Company also reviews property, plant and equipment for impairment and assesses the need to recognize impairment losses on this account. This occurs when the Company becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

Impairment is charged to other expenses corresponding to the function of the property, plant and equipment in the period when the impairment was found, no later than as at the end of the financial year. If the Company is sufficiently certain that the reason for the impairment loss recognized on an asset ceases to exist, it reverses the previously recognized impairment loss in whole or in part by crediting revenues.

An item of property, plant and equipment may be derecognized if disposed of or if the company does not expect to realize any future economic benefits from its further use. Any gains or losses on derecognition of an asset from the balance sheet (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are captured in the profit or loss of the period, in which the asset is derecognized.

Investments in progress are fixed assets under construction or under assembly and are stated at purchase price or production cost less any impairment losses. Fixed assets under construction are not depreciated until completed and commissioned for use.

Other financial assets (other than investments in subsidiaries)

Upon initial recognition, the Company classifies each financial asset under IFRS 9 as:

- Financial assets at fair value through profit or loss.
- Financial assets at fair value through other comprehensive income.
- Financial assets measured at amortized cost

Assets are captured in the Company's balance sheet when they become a party to a binding agreement. When an asset is recognized initially, an entity shall measure it at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the asset or financial liability.

Loans granted are initially recognized at fair value and as at the balance sheet date carried at amortized cost, taking into account the impairment losses.

All figures, unless indicated otherwise, are expressed in thousands of USD.

The Company applies simplified methods for measuring receivables carried at amortized cost, if this does not cause a deformation of the information contained in the statement of financial position, in particular if the period until repayment of the receivables is not long.

The Company measures the allowances for expected credit losses on the financial instrument in the amount equal to the expected credit losses through its lifetime.

Impairment losses on other financial assets are included in financing activities.

If the reason for which the impairment losses were recognized ceases to exist, the whole or the relevant part of the previously recognized losses increases the value of the given asset.

The assumptions pertaining to the completed asset impairment test are presented in Note 2 Financial assets (long-term).

Investments in subsidiaries

Recognized as subsidiaries in the Company's financial statements are entities over which the Company exercises direct control.

Investments in subsidiaries are recognized at purchase price less impairment losses.

No less frequently than on the date of preparation of the financial statements the Company verifies the existence of indications of impairment of investments in subsidiaries. If there are indications of impairment the Company compares the net asset value of individual entities with the carrying amount of the interests presented in the balance sheet.

If the carrying amount of the interests is not covered by the net assets of the given company, the Company carries out a further analysis of the indications of the need for revaluation of the assets caused by their impairment.

The Company evaluates both internal and external factors influencing the financial results recorded by the subsidiaries (inter alia, it verifies the execution of the assumed budget plans for the given financial year). In addition, the Company analyzes micro- and macroeconomic factors.

The impairment losses for the interests in subsidiaries are defined as the difference between the value of such assets following from the accounting ledgers as at the valuation date and the current value of expected future cash flows, discounted using the effective interest rate.

For the value of future discounted cash flows measured this way, the Company additionally carries out a sensitivity analysis of the changes to the effective interest rate and exchange rate fluctuations. The asset value is updated only upon determining that the impairment of the interests is permanent and irreversible in the longer run.

The assumptions pertaining to the completed asset impairment test are presented in Note 2 Financial assets (long-term).

All figures, unless indicated otherwise, are expressed in thousands of USD.

Trade and other receivables

Receivables from customers and other receivables are measured transaction price, within the meaning of IFRS 15, at initial recognition and at amortized cost as at the balance sheet date using the effective interest rate minus impairment losses.

If the trade receivables contain a material financing component, the value of receivables is determined by discounting forecast future cash flows to the present value, using a discount rate reflecting up-to-date market assessments of time value of money. If the discount method is applied, an increase in receivables as a result of lapse of time is recognized as financial income.

In the case of trade receivables the Group applies a simplified approach assuming calculation of the allowances for expected credit losses for the entire lifetime of the instrument.

Receivables from the state budget are presented in other non-financial assets, except for corporate income tax receivables, which are a separate balance sheet line item.

Prepayments and accruals

In prepaid expenses and accrued income, the Company captures expenses that were incurred in advance while they relate in whole or in part to subsequent periods.

The Company recognizes deferred income for the purpose of treating this income as income in future reporting periods when they are realized. Accrued expenses are liabilities payable for goods or services received or provided or formally agreed with the supplier, but not billed by the end of the financial year.

The Company keeps records of prepayments and accruals for the short and long term.

Cash and cash equivalents

Cash includes cash on hand, cash in bank and any deposits and short-term securities with maturity of up to 3 months.

Cash is recognized as at the balance sheet date at its nominal value.

Equity

The Company's equity is comprised of:

- Share capital.
- Capital from revaluation of options.
- Other capital.
- Capital from foreign exchange differences from translation of foreign operations.
- Retained earnings.
- Financial result of the current period.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Share capital is recognized at par value, in the amount stated in the Company's articles of association.

Capital from revaluation of options (share-based payment)

The cost of share-based payment transactions is measured by reference to the fair value at the date the rights are granted. Fair value is recognized in expenses in the profit and loss account and in equity (capital from revaluation of options) over the vesting period.

Fair value of awarded options (bonds) to purchase the Company's shares is estimated by an independent expert using modern financial engineering methods and numerical methods.

The measurement includes: input price for the model, strike price of the instrument, expected volatility of the instrument, risk-free interest rate and expected dividend.

After exercise of options convertible into shares, the capital from revaluation of granted options is moved to the share premium account, less cost of issue.

Other capital is created from:

- share premium account less cost of issue. Share issue costs incurred upon incorporation of the company or upon increase in the share capital reduce supplementary capital,
- difference between the value of shares and the carrying amount of net assets if shares are taken up in the entity under joint control,
- revaluation of assets,
- charges to profits of successive financial years.

Capital from foreign exchange differences from translation of foreign operations is created in the process of translating figures into the Group's presentation currency in the manner described in the "Functional currency and presentation currency" section.

Retained earnings consist of profits and losses posted in previous financial years that have not been transferred by decision of an approving body to another capital line item or designated for dividend payment.

Provisions for liabilities

Provisions for liabilities are recognized if the Group has an existing obligation (legal or customary) resulting from past events, if fulfillment of the obligation will likely reduce the resources embodying the Company's economic benefits and the amount of the liability can be reliably estimated.

The amount of provisions recognized and the justification for recognizing new provisions is reviewed and updated at the end of the reporting period, in order to adjust the estimates to the Company's knowledge as at that date.

In the financial statements, provisions are presented as long-term and short-term, respectively.

Trade liabilities and other non-financial liabilities

Liabilities are the Company's present liabilities resulting from past events, the fulfillment of which will reduce assets generating economic benefits for the Company.

Current trade liabilities are recognized in the amount payable due to insignificant discount effects. Interest, if any, is recognized when the suppliers' notes are received.

Non-current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is longer than 12 months.

Current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is shorter than 12 months.

Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and other public institutional debt, liabilities on account of received advance payments to be settled by deliveries of goods, services or non-current assets. Other non-financial liabilities are recognized at the amount of the required payment.

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity; or to exchange financial assets or financial liabilities with another entity under potentially unfavorable conditions,
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to issue a variable number of its own equity instruments, or a derivative that will or may be settled other than by exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency are equity instruments if the entity offers the rights, options or warrants pro rata to all of its existing owners of the same class of the Company's own non-derivative equity instruments.

Upon initial recognition, the Company classifies each financial liability as:

- financial liabilities measured at amortized cost,
- financial liabilities measured at fair value through profit or loss – designated as measured in this manner at or after the initial recognition,
- financial liabilities measured at fair value through profit or loss – financial liabilities held for trading in accordance with IFRS 9,
- financial guarantee contracts,
- financial instruments designated as hedging instruments,
- liabilities outside the scope of IFRS 9 (Ex-IFRS 9).

Upon initial recognition, financial liabilities measured at fair value through profit or loss are measured at fair value taking into consideration their market value as at the balance sheet date without taking into account the costs of sale transactions that may be directly attributed to the financial liability. Changes in the fair value of these instruments are recognized in profit or loss as financial costs or income. Other financial liabilities other than financial instruments measured at fair value through profit or loss are measured at par value or, if measurement at par value would materially affect the accuracy and clarity of presentation of the liability – at amortized cost using the effective interest rate method.

The Company excludes a financial liability from its balance sheet if the liability has expired, i.e. when the obligation specified in an agreement has been satisfied, waived or expired. Replacement of a current debt instrument with another one with substantially different terms, performed between the same parties, is recognized by the Company as expiry of the original financial liability and recognition of a new financial liability. Similarly, material amendments of terms and conditions of agreements relating to an existing financial liability is recognized by the Company as expiry of the initial and recognition of a new financial liability. The difference in the relevant carrying amounts arising out of the replacement is recognized in profit or loss.

Income tax

Income tax includes: current tax and deferred tax. Current tax liability is calculated on the basis of the tax result (taxable base) of the financial year.

Tax profit (loss) differs from accounting profit (loss) due to the exclusion of taxable revenues and tax-deductible expenses in future years as well as cost and revenue items that will never be taxable. Current tax liability is calculated on the basis of the tax rates applicable in the given financial year.

Deferred tax

Deferred tax liability is tax to be paid in the future, recognized in the full amount using the balance sheet method, on account of temporary differences between the tax value of assets and liabilities and their carrying amount.

Deferred tax asset is tax to be refunded in the future, calculated using the balance sheet method, on account of temporary differences between the tax value of assets and liabilities and their carrying amount in the financial statements. Deferred tax assets are recognized if it is probable that taxable income will be generated in the future that will enable the use of the temporary differences.

The main temporary differences result from the different valuation of assets and liabilities settled over time for tax and accounting purposes.

Deferred income tax is determined using tax rates enacted or substantially enacted as at the balance sheet date, which will prevail at the time they are realized. Where it refers to transactions settled with equity it is posted to equity, and where it refers to transactions posted in other comprehensive income, it is charged to other comprehensive income.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is subject to appropriate reduction to the extent it is no longer probable that taxable income sufficient for a partial or full realization of this deferred tax asset would be generated. A deferred tax asset not recognized are reassessed at each balance sheet date and recognized to the amount that reflects the probability of achieving taxable income in the future, which will enable the recovery of this asset. A deferred tax liability or asset are recognized in the balance sheet as long-term provisions or assets, respectively.

The Company sets off deferred income tax assets and deferred income tax provisions if and only if an enforceable legal right exists to set off receivables against current income tax liabilities and the deferred income tax relates to the same taxpayer and the same fiscal authority.

Revenues and operating expenses

Revenue is the inflow of economic benefits during the period arising in the course of the ordinary activities of the Company when those inflows result in increases in equity, other than increases relating to contributions from shareholders. Sales revenues are made up only of revenues from contracts with customers falling within the scope of IFRS 15. The manner of recognition of sales revenues in the standalone financial statements, including both the value and the timing of revenue recognition, is determined by a five-stage model consisting of the following steps:

- identify the contract with the customer,
- identify the performance obligations,
- determine the transaction price,
- allocate the transaction price to performance obligations,
- recognize revenue when or as the entity satisfies a performance obligation.

Identify the contract with the customer

The Company recognizes a contract with the customer only if all of the following criteria are satisfied:

- the contracting parties have entered into a contract (in writing or in line with other usual commercial practices) and are required to perform their obligations,
- The Company is able to identify the rights of each party pertaining to the goods or services to be delivered
- The Company is able to identify the payment terms for the goods or services to be delivered,
- the contract has economic content (meaning that it may be expected that the contract will result in changing the risk, timing or amount of future cash flows),
- it is likely that the Company will receive consideration which it will be entitled to in exchange for the goods or services to be delivered to the customer.

Assessing whether the receipt of the consideration is likely, the Company takes into account only the ability and intention to pay the consideration amount by the customer on the required date. The consideration amount to which the Company will be entitled may be lower than the price defined in the contract if the consideration is variable, because the Company may offer a price discount to the customer.

Identify the performance obligations

At contract inception, the Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: a good or service (or bundle of goods or services) that is distinct; or a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

The good or service is distinct if both of the following conditions are satisfied:

- the customer may benefit from the good or service either directly or through links to other resources that are readily available to the customer, and
- the obligation to deliver the good or service to the customer may be distinguished from the other obligations specified in the contract.

Determine the transaction price

The Company will consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Allocate the transaction price to performance obligations

The Company allocates transaction price to each performance obligation (or distinct good or service) in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognize revenue when or as the entity satisfies a performance obligation

The Company recognizes revenue when (or as) the entity satisfies a performance obligation by transferring a promised good or service to a customer.

Significant financing component

If the contract includes a significant financing element, determining the transaction price, the Company adjusts the promised amount of consideration by the change of the time value of money. A significant financing element appears in the contract if the distribution of the payments over time agreed by the parties (express or implied) gives the customer or the Company significant benefits on account of financing the transfer of the goods or services to the customer. To determine the transaction price the Company adjusts the promised amount of consideration by the significant financing component, using the discount rate which would be applied in the case of conclusion of a separate financing transaction between the Company and its customer at contract inception. However, the Company applies the practical expedient specified in paragraph 63 of IFRS 15, making it possible to assume that the amount of consideration does not comprise a significant financing component because in the Company's business practice the expected period (in accordance with the contracts with customers) from the delivery of the goods or performance of services to the receipt of the payment from the customer does not exceed one year. Therefore for short-term prepayments the Company did not single out any significant financing element.

Capitalized costs associated with efforts aimed at executing the contract and performing the contract

The Company capitalizes additional costs associated with efforts aimed at executing the contract provided if it expects to recover such costs within a timeframe not longer than one year from the date of incurring the costs. Any costs which the Company expects never to be recovered and any costs that are expected to be recovered within one year from incurring them are recognized as costs of the period in which they were incurred. The Company counts as costs subject to activation also commissions payable to employees of the Sales Department associated only with efforts aimed at executing contracts. Capitalized costs are presented in prepayments and accruals and are depreciated using the straight-line method over the anticipated term of the contract.

The cost of goods and materials consumed is recognized by the Company in the same period, in which revenues on sales of those assets are recognized, in line with the principle of commensurability of revenues and expenses. The cost commensurate with the revenues from the sale of rights to use a software license for a definite period of time is the amortization cost of completed development works.

Financial activity revenues and expenses

Financial income recognized in the profit and loss account includes mainly interest on investing available funds on bank accounts and positive foreign exchange differences. Other elements that may comprise financial income are commissions and interest on loans granted, late interest on receivables, amounts of forgiven loans and borrowings and the amounts of reversed provisions related to the financing activity.

Financial costs include mainly interests on bonds and loans, commissions and handling fees and other bank fees. Other elements that may comprise financial costs include: provisions recognized for certain or probable losses from financial operations, value at purchase price of interests, shares, securities sold, losses on the settlement of derivatives.

Uncertainty of estimates

In preparation of the standalone financial statements the Company's Management Board uses its judgment in making numerous estimates and assumptions that affect the adopted accounting policies and the presented values of assets, liabilities, revenues and costs. Although the adopted assumptions and estimates rely on the best knowledge of the Company's management on current actions and events, the actual results may differ from the expectations.

Subjective assessments and judgments

Relevant notes present the main areas in which, in the process of application of accounting principles (policy), in addition to accounting estimates, an important role was played also by the management's professional judgment, and for which a change of the estimates may have significant impact on the Company's financial data presented in such notes in the future.

- impairment of financial assets (see Note 2)
- share-based payment agreements (see Note 15)

In the reporting period, no changes were made in the methods used to make estimations, compared to 2018.

Seasonality of business

The Company's business is not seasonal.

Business combinations and loss of control

In the first 12 months of 2019, there were no business combinations or loss of control in the Company. There were no such events in 2018 either.

Notes and explanations to the annual standalone financial statements

Note 1.1 Property, plant and equipment

As at 31 December 2019 and 31 December 2018, the Company did not have any undepreciated property, plant and equipment.

As at 31 December 2019 and 31 December 2018, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 31 December 2019 and 31 December 2018, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

The Company has no property, plant and equipment used under finance lease agreements.

Estimates:

As at each balance sheet date, the Company analyzes whether or not objective indication exist that might imply an impairment of the given property, plant and equipment component.

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset. The amortization rates are determined on the basis of the anticipated useful life of property, plant and equipment components. At least once a year, the Company revises the assumed periods of useful life, based on its current estimates.

Note 1.2 Changes in property, plant and equipment, by type

No.	Item	Own land	Buildings and structures	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2019**	**-**	**-**	**13**	**-**	**-**	**-**	**13**
	Additions	-	-	-	-	-	-	-
	Reductions	-	-	-	-	-	-	-
2.	**Gross value as at 31 December 2019**	**-**	**-**	**13**	**-**	**-**	**-**	**13**
3.	**Accumulated depreciation as at 1 January 2019**	**-**	**-**	**13**	**-**	**-**	**-**	**13**
	Additions	-	-	-	-	-	-	-
	Reductions	-	-	-	-	-	-	-
4	**Accumulated depreciation as at 31 December 2019**	**-**	**-**	**13**	**-**	**-**	**-**	**13**
5	**Net value as at 1 January 2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
6	**Net value as at 31 December 2019**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

All figures, unless indicated otherwise, are expressed in thousands of USD.

No.	Item	Own land	Buildings and structures	Plant and machinery	Vehicles	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2018**	-	-	13	-	-	-	13
	Additions	-	-	-	-	-	-	-
	Reductions	-	-	-	-	-	-	-
2.	**Gross value as at 31 December 2018**	-	-	13	-	-	-	13
3.	**Accumulated depreciation as at 1 January 2018**	-	-	8	-	-	-	8
	Additions	-	-	5	-	-	-	5
	Reductions	-	-	-	-	-	-	-
4	**Accumulated depreciation as at 31 December 2018**	-	-	13	-	-	-	13
5	**Net value as at 1 January 2018**	-	-	5	-	-	-	5
6	**Net value as at 31 December 2018**	-	-	-	-	-	-	-

Note 1.3 Expenditures on non-financial non-current assets and on environmental protection

In the period from 1 January to 31 December 2019 and in the comparable period of 2018, the Company did not incur expenditures for fixed assets, including environmental protection. In 2020, the Company plans to incur expenditures for intangible assets in the amount of USD 60 thousand. The Issuer does not plan to incur other expenditures for non-financial non-current assets, including environmental protection.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 2 Financial assets(long-term)

Financial assets (long-term)	31 December 2019	31 December 2018
Loans granted	-	4 446
Interests in subsidiaries	11 461	11 389
Total	**11 461**	**15 835**

The line item “Interests in subsidiaries” includes 100% shares in Silvair Sp. z o.o. with its registered office in Kraków. The Company also had rights to shares in Sway Sp. z o.o. with its registered office in Kraków, described in Note 2.1.

Loans granted as at 31 December 2019 were reclassified to current financial assets.

The Issuer is a company operating in the area of new technologies which has developed and has been implementing innovative products in the form of software for remote communication of devices. The Group conducts intensive development work on products and services using the Bluetooth Mesh standard. This work is performed by the Issuer’s subsidiaries, with most of such work being performed by Silvair Sp. z o.o. with its registered office in Kraków.

The Issuer’s activities at the current stage of development are characterized by high capital intensity associated with, among others, the necessity to acquire and incur the costs of employing highly qualified personnel required for development of the broad product offering. As a result, the Issuer takes actions aimed at raising additional funds to finance its day-to-day operations.

The Company raises financing through issue of shares and debt securities convertible into the Company’s new issue shares (Convertible Promissory Note) (“Convertible Securities”). Historically, since 2014 the Company has carried out 3 series of issues of Notes and 2 capital rounds (including the IPO round). As part of the capital rounds, during increase of the Company’s capital, all previously issued Notes were converted. On 8 August 2019, the Company’s Board of Directors adopted a resolution to approve the incurring of a liability up to a total par value of USD 5.5 million in the form of Series IV Notes. As at the date of preparation of these statements the Company issued in this issue Convertible Securities with the total par value of USD 3.412 million.

Due to the nature of the conducted business and the structure of the Group, the Company distributes a clear majority of the raised funds to the subsidiary Silvair Sp. z o.o. in the form of successive loan tranches. These loans are from time to time converted together with interest into the capital of Silvair Sp. z o.o. The most recent conversion took place in December 2016. As part of the conversion the Company took up 100,000 new shares in Silvair Sp. z o.o. for PLN 27.98 million. The Management Board plans to convert further tranches of granted loans into the capital of Silvair Sp. z o.o. at the end of 2020.

All figures, unless indicated otherwise, are expressed in thousands of USD.

The Company does not perform directly any work on technology but participates in the sale of the products and services developed as a result of the development work performed by its subsidiaries. The Company has a sales team which distributes the Group's products in the United States. Due to the uniqueness of the Group's operations, when assessing the value of the shares, the Company estimates the total recoverable amount of individual elements of development work conducted by the subsidiaries. Conduct of development work by the subsidiaries is the foundation of the business of the entire Group hence the test based on these elements translates directly into the value of the shares in the Company and the loans granted.

Estimates:

The tests are carried out on the basis of the following assumptions:

- The tests are prepared on the basis of an internal financial forecast of the Silvair Group, based on the discounted cash flow method.
- Due to the innovative nature of the commercialized technology, a 10-year projection period has been adopted.
- The execution of development work has multiple stages, i.e. individual development work stages are closed upon release of the next software versions and/or launch of the next service or package of digital services.
- The development work volume in individual projection years comprises: initial carrying amount, direct expenditures (personnel and non-personnel) on continuation of individual work stages, direct expenditures on and other expenditures of the Group which are aimed to contribute to earning revenues from the tested assets.
- The initial carrying amount comprises all expenditures incurred both for development work completed and not yet completed covered by the tests.
- To determine the discount rate, the weighted average cost of capital is used. The WACC value calculated for the needs of the tests in 2019 was 14.21%
- If the total recoverable amount is higher than the total carrying amount of the development work conducted by the subsidiaries there is no indication for recognizing impairment losses for the interests.

Based on the estimates made, in the opinion of the Management Board, the conducted tests have not confirmed impairment of the shares, rights to shares or loans granted as at the end of 2019.

Note 2.1 Right to shares

In accordance with the Investment Agreement dated 28 March 2018, the ASI Bridge Alfa Bitspiration Booster Sp. z o.o. investment fund (hereinafter "ASI Bridge") took up 6,200 shares in the subsidiary Sway for PLN 1,600,000 (USD 427 thousand as at the take-up date). The par value of the shares is PLN 310,000. The agreement provided for ASI Bridge's divestment of Sway and transfer of the shares to Silvair, Inc. in return for notes convertible into the company's shares. The fund had the right to exchange the notes for shares under the issue in connection with the initial public offering. On 18 May 2018, an agreement on exchange of shares in Sway for convertible promissory notes was signed. The conversion of the notes into shares took place in the initial public offering at the WSE on 26 July 2018. The agreement transferring the ownership of the shares in Sway from ASI Bridge to Silvair, Inc. was entered into on 7 January 2020.

Right to shares	**01.01.2019 – 31.12.2019**	**01.01.2018 – 31.12.2018**
As at the beginning of the period	445	-
Additions	-	445
Reductions	-	-
As at the end of the period	**445**	**445**

The estimates pertaining to assessment of the impairment of the right to shares are described together with the shares in Note 2.

Note 3 Current assets

In the financial statements as at 31 December 2019 the company showed 3 balance sheet items: financial assets, cash and cash equivalents and prepayments and accruals.

Note 3.1 Financial assets (current)

Financial assets (current)	**31.12.2019**	**31.12.2018**
Loans granted to subsidiaries	8 521	-
Total	**8 521**	**-**

The loans granted to subsidiary, Silvair Sp. z o.o., are denominated in PLN or USD. The interest rate on the loans is fixed and amounts to 5% per annum. The balance of loans denominated in PLN as at the balance sheet date is USD 5,375 thousand and the balance of loans denominated in USD is USD 3,146 thousand.

During the reporting period the Company granted an additional loan in the amount of USD 3,766 thousand. Interest accrued for 2019 amounted to USD 308 thousand. The loans are not overdue and their repayment date is 31 December 2020.

As at the balance sheet date 31 December 2018, loans granted were presented as non-current financial assets. Additional information on the loans and estimates pertaining to assessment of the impairment of loans granted are presented in Note 2.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 3.2 Cash and cash equivalents

Cash and cash equivalents	31 December 2019	31 December 2018
Cash on hand	-	-
Cash in bank	905	470
Other cash (term deposits)	-	1 995
Total	**905**	**2 465**

Note 3.2.1 Explanation o selected items of the statement of cash flows

The line item "Other adjustments resulting from operating activity" shows the value charged to the general and administrative expenses corresponding to the value of accrued option capital, taking into account the executed portion.

Note 3.3 Prepayments and accruals

Prepayments and accrual	31.12.2019	31.12.2018
Fees for conferences	16	-
Other	-	-
Total	**16**	**-**

In accruals the Group presents expenditures which pertain to future periods incurred before the balance sheet date. The costs of prepaid participation in conferences associated with presentation of the Company's activity will be charged to the profit and loss account successively in future periods.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 4 Share capital

Share capital as at 31 December 2019.

Type	Number of shares	Par value	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	10 465 670	1 047	20 317	19 273
Preferred Stock	960 000	96	125	29
Total	**11 425 670**	**1 143**	**20 442**	**19 302**

The par value per share is USD 0.1. Number of shares.

Share capital ownership structure	Number of shares	% of shares	Number of votes([1])	% of votes
Ipopema TFI	2 213 781	19.38	2 213 781	13.64
Szymon Słupik	1 884 711	16.50	3 529 871	21.75
Rafał Han	1 335 071	11.68	2 967 071	18.29
Adam Gembala	1 018 760	8.92	2 145 520	13.22
Other shareholders holding less than 5% of shares	4 973 347	43.52	5 369 427	33.10
Total	**11 425 670**	**100.00**	**16 225 670**	**100.00**

([1])In accordance with Certificate of Incorporation: (i) a holder of a Common Share holds one vote at the Shareholder Meeting, (ii) a holder of one Preferred Founder Share holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Shares that a share of the Founders Preferred Stock may be converted into pursuant to the Certificate of Incorporation (i.e. one Common Share). The Company's shareholders do not hold any other voting rights than the rights specified above

On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the 2016 Stock Plan described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). As a result of the Issue, the Company's share capital is PLN 1,142,067 and consists of 11,420,670 shares with a par value of USD 0.1 each, including 10,460,670 Common Shares and 960,000 shares of the Founders Preferred Stock, representing 16,220,670 votes at the Company's shareholder meeting, of which 10,460,670 are votes attaching to the Common Shares and 5,760,000 are votes attaching to the Preference Founder Shares. After the Issue, the total number of the Company's common shares remaining to be issued under the Stock Plan is

250,750 shares. The contract between the Company and its consultant provides for the granting of 2,300 shares on each 18th day of the month following 18 February 2019 up until and inclusive of 18 July 2020 as well as 1,150 shares on 30 July 2020 if the consultant maintains the Continuous Service Status within the meaning of the contract as at the date of granting the shares in question. As at 31 December 2019, 23,000 shares were allocated to the Consultant. In 2019 there was no issue, redemption or repayment of non-equity and equity securities.

As at 31 December 2019, out of the 11,425,670 issued shares, 11,405,420 shares were paid up in full, and 17,250 shares were not paid up.

Share capital as at 31 December 2018

Type	Number of shares	Par value	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	10 420 420	1 042	20 223	19 181
Preferred Stock	960 000	96	125	29
Total	**11 380 420**	**1 138**	**20 348**	**19 210**

The par value per share is USD 0.1. Number of shares.

Share capital ownership structure	Number of shares	% of shares	Number of votes	% of votes
Funds managed by Trigon	2 213 781	19.45	2 213 781	13.68
Szymon Słupik	1 884 711	16.56	3 529 871	21.82
Rafał Han	1 296 441	11.39	2 928 441	18.10
Adam Gembala	1 018 760	8.95	2 145 520	13.26
Other shareholders holding less than 5% of shares	4 966 727	43.65	5 362 807	33.14
Total	**11 380 420**	**100.00**	**16 180 420**	**100.00**

All figures, unless indicated otherwise, are expressed in thousands of USD.

On 24 July 2018, the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange, "WSE") adopted Resolution No. 796/2018, by which the WSE Management Board resolved to:

- introduce, as of 26 July 2018, into trading on the parallel market of the stock exchange, 10,420,420 common bearer shares of the Company with a par value of USD 0.10 each registered by the National Depository for Securities under code USU827061099; and
- list Silvair, Inc. shares in the continuous listing system in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS".

The offer shares were taken up at PLN 17.00 per share.

In accordance with the prospectus, the Management Board of WSE admitted and introduced into trading 10,420,420 shares of common stock with a par value of USD 0.10 each, including:

- 9,235,510 common bearer shares of the Company, of which: (i) 4,709,000 existing common bearer shares of Common Stock and 15,000 common shares taken up in exercise of options in 2018, totaling 4,724.00 shares of common stock, (ii) 4,063,495 common bearer shares created as a result of the conversion of 4,063,495 shares of Series A Preferred Stock, and (iii) 448,015 new common bearer shares of the Company, which were issued by the Company upon conversion of Third Series Bonds carried out on 18 July 2018.
- 1,184,910 new offered common shares subscribed for by a total of 98 investors, including: 82 retail investors who subscribed for 34,910 shares and 16 institutional investors who subscribed for 1,150,000 shares. The value of the new public offering was PLN 20,143,470.

The Company has not applied for admission of 960,000 Preferred Stock of the founders.

In Q4 2018 there was no issue, redemption or repayment of non-equity and equity securities.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 5 Capital from revaluation of options

Capital from revaluation of options	31 December 2019	31 December 2018
Valuation of stock options under IFRS 2	375	155
Total	**375**	**155**

Note 6.1 Other capital

Other capital	31 December 2019	31 December 2018
Other capital	21 016	20 910
Total	**21 016**	**20 910**

Note 6.2 Changes in other capital

In the period from 1 January 2019 to 31 December 2019:

Changes in other capital	Other capital
As at 1 January 2019	**20 910**
Exercise of stock options for Company shares	108
Expenditures incurred in connection with the stock issue	-
Issue of new shares (IPO)	-
Unpaid capital which has been called up	-2
Issue of bonds convertible to shares	-
As at 31 December 2019	**21 016**

All figures, unless indicated otherwise, are expressed in thousands of USD.

In the financial year ended 31 December 2018:

Changes in other capital	Other capital
As at 1 January 2018	**15 051**
Exercise of stock options for Company shares	32
Expenditures incurred in connection with the stock issue	-924
Issue of new shares (IPO)	5 325
Issue of bonds convertible to shares	1 426
As at 31 December 2018	**20 910**

Note 7 Retained earnings

Retained earnings	31 December 2019	31 December 2018
Accumulated losses brought forward	- 3 513	- 3 171
Total	**- 3 513**	**-3 171**

Note 8 Earnings (loss) per share

Earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period by the weighted average number of shares outstanding during the financial year.

Diluted earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period by the weighted average number of common shares outstanding during the reporting period, adjusted by the effect of diluting options.

Diluting options also include the allocation of shares in the Parent Company in the period from 1 January 2019 to the publication date.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Earnings/(loss) per share in the period covered by the financial statements:	**31 December 2019**	**31 December 2018**
Weighted average number of the company's shares in the period	11 403 045	10 556 458
Number of diluting options	2 118 665	569 000
Weighted average number of Company's shares in the period after diluting options	12 323 584	10 503 726
Continued operations		
Earnings/(loss) per share (USD)	-0.06	-0.03
Diluted earnings/(loss) per share (USD)	-0.06	-0.03
Discontinued operations		
Earnings/(loss) per share (USD)	-	-
Diluted earnings/(loss) per share (USD)	-	-
Activities		
Earnings/(loss) per share (USD)	**-0.06**	**-0.03**
Diluted earnings/(loss) per share (USD)	**-0.06**	**-0.03**

Note 9 Liabilities and provisions

Note 9.1 Trade liabilities

Trade liabilities	**31 December 2019**	**31 December 2018**
to related entities	-	55
to other entities	55	-
Total	**55**	**55**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Aging of trade liabilities

Trade liabilities	31 December 2019	31 December 2018
up to one month	55	-
over 1 month to 3 months	-	55
over 3 months to 6 months	-	-
over 6 months to 1 year	-	-
over 1 year	-	-
Total	**55**	**55**
of which overdue	**-**	**-**

Nota 9.2 Other liabilities (current)

Other liabilities (current)	31 December 2019	31 December 2018
Interest on bonds convertible to shares (*)	2 912	-
Interest on bonds convertible to shares	42	-
Total	**2,954**	**-**

Current liabilities on account of issue of bonds convertible to shares	01.01.2019 - 31.12.2019	01.01.2018 - 31.12.2018
As at the beginning of the period	-	-
additions	2 954	
reductions	-	-
Total	**2 954**	**-**

On 8 August 2019, in Current Report No. 15/2019 the Company announced that the Company's Board of Directors adopted a resolution to approve the incurring of a liability up to a total par value of USD 5.5 million

All figures, unless indicated otherwise, are expressed in thousands of USD.

in the form of convertible promissory notes (“Convertible Securities”) and set the key terms of issue of the Convertible Securities.

As part of the total maximum issue amount approved by the Board of Directors, the issues of Convertible Securities have to be effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 (“United States Securities Act”) and without the obligation to prepare a prospectus or other offering document, in accordance with the Company’s capital requirements. The resolution adopted by the Company’s Board of Directors does not define the schedule or the deadline for Convertible Securities issues. In accordance with the decision of the Company’s Board of Directors, the Convertible Securities bear interest at a fixed interest rate. The holders of Convertible Securities may demand their redemption after elapse of one year from the issue date (“Redemption Date”). In addition, with the consent of the holders of Convertible Securities representing a majority of the outstanding par value of Report of the Board of Directors on the activities of the Silvair Group for the period from 1 January to 30 June 2019 All figures, unless indicated otherwise, are expressed in thousands of USD. ir@silvair.com www.silvair.com page 42 the Convertible Securities, the Company may, according to the terms of the Convertible Securities, repay the liabilities resulting from the Convertible Securities before their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due and payable in the cases defined in the terms of the Convertible Securities, including in particular submission of a petition for the Company’s bankruptcy or petition for application of any remedy pursuant to the federal bankruptcy law and appointment of a commissioner or trustee to manage the Company’s assets.

The terms of the Convertible Securities define the mechanisms for conversion of claims following from the Convertible Securities, comprising a claim for payment of the par value of the Convertible Securities and accrued interest (“Conversion Amount”) to the Company’s common shares of a new issue in the case: (i) the Company effects a new share issue in one or several related transactions bringing gross receipts for the Company in the amount of at least USD 5.0 million (“New Equity Financing”) or (ii) change of control over the Company occurs in accordance with the definition laid down in the terms of the Convertible Securities, including, among others, sale of essentially all assets of the Company, merger, consolidation, capital reorganization or other similar transaction, subject to the specific provisions of the terms of the Convertible Securities (“Change of Control”). In the case of New Equity Financing or in the case of Change of Control, the Company will issue for the holders of Convertible Securities the Company’s common shares in the number following from dividing the Conversion Amount by the lower of: (i) price per share paid for most of the Company's shares in return for a cash contribution as part of New Equity Financing (in the case of New Equity Financing) multiplied by the discount rate of 80% or the price per the Company’s common share paid in connection with the Change of Control (in the case of Change of Control); and (ii) the quotient of USD 37.0 million and the Company’s capitalization (within the meaning of the terms of the Convertible Securities). The terms of the Convertible Securities contain provisions prohibiting the disposal of the Company’s securities in the case of effecting an initial public offering of the Company’s securities pursuant to the United States Securities Act. The Convertible Securities are subject to the laws of the state of California.

By 31 December 2019, the Company issued Convertible Securities with the total par value of USD 2.912 million. In accordance with the executed contracts, the annual interest rate on the bonds is 5% and is fixed. As at the publication date, there was another issue of bonds convertible into shares for USD 0.5 million, which the Issuer reported in current report no. 8/2020 dated 4 March 2020.

Bonds convertible to shares	31.12.2019	31.12.2018
Par value of issued bonds	2 912	-
Interest expense	42	-
Interest paid	-	-
Bond liability	**2 954**	**-**

As a result of the assessment it has been concluded that the bonds do not contain a equity element and have not been classified as compound financial instruments in accordance with IAS 32, hence they are a liability in entirety.

Note 9.3 Short-term provisions

In 2019, the Company recognized provisions of liabilities resulting from the claims of the so-called patent trolls.

On 2 June 2019, F2VS Technologies, Inc. with its registered office in the US (hereinafter: F2VS) filed a statement of claim against Silvair, Inc. The proceedings pertain to an allegation that the Company breached F2VS's patents. The litigation is conducted by a Delaware court (DISTRICT COURT FOR THE DISTRICT OF DELAWARE, USA) under the US law. F2VS moved for discontinuation of the breach by the Company and a compensation in an unspecified amount. Based on the facts of the case, the Company is of the position that its products and services do not breach the plaintiff's patents. Consequently, in the Company's opinion, the probability of winning the dispute by the Company, is high. Considering this, on 3 September 2019 the Company submitted its statement of defense, denying the breaches and moved for dismissing F2VS's statement of claim in entirety. Nonetheless, considering the time and potential costs of the court proceedings in the USA, the parties have embarked on negotiations to conclude a settlement. The provision estimated at the time amounted to USD 10 thousand. The settlement ended with signing an agreement on the purchase of the right to the licenses used. The value of the agreement was USD 60 thousand.

As at 31 December 2019, the Company recognized a provision for USD 20 thousand in connection with information received from a lawyer about another claim for payment of a "license fee" from JSDQ. In the Company's opinion it does not breach JQSD's patent. Nonetheless, considering the time and potential costs of the litigation in the case, if any, and the necessity to enter into such a license agreement, the Company has made a decision to recognize a provision. A detailed description of JSDQ's claims is presented in Note 16 Major events after the balance sheet date.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Provisions for current liabilities	**01.01.2019 - 31.12.2019**	**01.01.2018 - 31.12.2018**
As at the beginning of the period	-	-
additions	30	
reductions	10	-
Total	**20**	**-**

Note 10 Contingent liabilities, including guarantees and sureties extended by the entity, including bills

As at 31 December 2019 and 31 December 2018, the Company had no other contingent liabilities.

As at 31 December 2019 and 31 December 2018, the Company was not acting as a guarantor or surety and also had not drawn its own or received third party promissory notes as collateral or payment for a transaction.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 11 Breakdown of costs

Other operating income	**Financial year ended 31 December 2019**	**Financial year ended 31 December 2018**
Depreciation and amortization	-	5
Consumption of materials and energy	-	-
External services	173	170
Taxes and fees	-	-
Payroll, including share-based payments (Note 15)	703	288
Social security and other benefits	-	-
Other costs by nature	1	-
Cost of products and materials sold	-	-
Total costs by type	**887**	**463**
Movement in inventory of products and production cost of products for own use (development work)	**-**	**-**
Cost of sales	-	-
Selling and distribution expenses	178	14
General and administrative expenses	699	449
Total costs by function	**877**	**463**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 11.1 Other operating expenses

Other operating expenses	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Provisions for liabilities	20	-
Other	-	-
Total	**20**	**-**

Information on provisions is presented in Note 9.3.

Note 12 Financial income

Financial income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Interest	**330**	**202**
Interest on bank deposits and accounts	22	16
Interest on loans from related entities	308	186
Other	**1**	**2**
Total financial income	**331**	**204**

Note 13 Financial costs

Financial costs	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Interest	**42**	**-**
To other entities	-	-
Interest on bonds convertible to shares	**42**	-
Other	**71**	**69**
Financial costs	**113**	**69**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Costs for 2018, related to interest convertible into stock are recognized in equity in connection with a conversion of bonds into shares.

Note 14 Reconciliation of the main items differentiating the income tax basis from the pre-tax financial result

Financial income	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Gross loss	-679	-328
Tax	23	14
Impact of change in the deferred tax asset	-	-
Impact of movement in the deferred tax liability	-	-
Total charges to profit before tax	23	14

The US tax system consists of two tiers. The first tier is the federal tax, which is unified for all the companies operating in the US, while the second tier is a state tax. Despite the accounting losses it incurs, the Company still pays the state tax.

Note 15 Share-based payment agreements

Description of the agreements:

On 14 October 2016, the Parent Company signed an agreement (hereinafter referred to as the KPI Agreement) as amended by annex of 18 December 2017, setting forth the terms and conditions for granting stock options to the beneficiaries named in the agreement under two option pools: “Option Pool” and “Additional Option Pool”.

1. The following were to be granted from the “Option Pool”:

- 132,000 shares to Key Personnel of the Parent Company,
- 743,000 shares to the Management Board, including: 465,000 options to the CEO, Rafał Han, 172,000 shares to the CTO, Szymon Słupik, and 106,000 shares to the CFO, Adam Gembala,
- 96,000 shares to Venture FIZ.

According to the KPI Agreement, the Board of Directors has the powers to set the detailed terms and conditions for granting options in the “Option Pool” to the beneficiaries.

All figures, unless indicated otherwise, are expressed in thousands of USD.

By 31 December 2019, options have been granted from the "Option Pool" for all the shares for the Management Board and Venture FIZ, as well as 80,000 out of 132,000 shares for the Key Personnel.

By 31 December 2019, all the options granted to the Management Board members and Venture FIZ have been exercised and in the Key Personnel pool, options for 50,000 shares will be exercised by 31 December 2019 including 5,000 shares exercised in 2019.

2. The following were to be granted from the Additional Option Pool:

- 279,000 of shares to the Key Personnel of the Parent Company,
- 203,000 shares to the CEO, Rafał Han.

The Board of Directors has the powers to set the detailed terms and conditions for granting options from the "Additional Option Pool" to the Key Personnel, while the total number of shares taken up by employees in exercise of such granted options may not exceed 69,750 shares each year.

The Board of Directors has the powers to set the detailed terms and conditions for granting options from the pool to the CEO Rafał Han, while the total number of shares taken up by the beneficiary may not exceed 50,750 shares each year

On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the Option Plan. The contract between the Company and its consultant provides for the granting of 2,300 shares on each 18th day of the month following 18 February 2019 up until and inclusive of 18 July 2020 as well as 1,150 shares on 30 July 2020 if the consultant maintains the continuous service status within the meaning of the aforementioned contract. By 31 December 2019, options for 23,000 shares were exercised in that pool. The granting and exercise of the stock options takes place at the price of USD 4.08, i.e. at the market price of the shares on 18 February 2019.

By 31 December 2019, options were granted from the "Additional Option Pool" for all the shares for Rafał Han, as well as options for 40,250 out of 279,000 shares for the Key Personnel. By 31 December 2019, no options from Rafał Han's pool were exercised.

The Group considers the date of signing the KPI Agreement as the option grant date within the meaning of IFRS 2

Number of options and strike price from January 2018 to 31 December 2019

	in 2019	in 2018
Pool of shares under the Option Plan	1 453 000	1 453 000
Number of shares available under the Option Plan at the beginning of the period	**191 000**	**544 000**
Number of shares granted under option agreements	40 250	353 000
Number of shares taken up in exercise of the options	28 000	15 000
Number of shares available to be taken up in subsequent periods under option agreements	250 250	378 000
Number of shares released upon expiration of options	140 000	-
Number of shares available to be granted under further option agreements at the end of the period	**290 750**	**191 000**

As at the publication date, the number of shares in the Option Plan was increased to 2,000,000, which is described in Note 31 Events after the balance sheet date.

The Company has measured the fair value of services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted.

The fair value of awarded options was estimated by an independent expert using modern financial engineering methods. The Hull-White model was used to measure the fair value of the options granted, with the following assumptions:

- Stock price at the beginning of the period = $3.33
- Strike price of the option = $0.10
- Risk-free interest rate = 2.455%.
- Dividend yield = 0%
- Parameter M = 3
- Parameter eΔt = 0%.
- Stock price volatility (σ) = 46.6%.

For the options granted after the public issue of the company's shares, the services received in exchange for equity securities were valued using the fair value determined indirectly, by reference to the fair value of the stock price on the date of granting the options.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Impact of share-based payment transactions on the Company's result in the reporting period – valuation of options:

	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Management cost	330	166
Capital from revaluation of options	330	166

Impact of option exercise, change in the structure of the Company's equity in the reporting period:

	Financial year ended 31 December 2019	Financial year ended 31 December 2018
Other capital	110	34
Capital from revaluation of options	-110	-34

The change in capital from revaluation of options in 2018 resulted from the exercise 15.000 stock options and revaluation of the remaining options in the vesting period.

The total amount of shares taken up in performance of option contracts in the period from 1 January to 31 December 2018 was USD 1,5 thousand.

The change in capital from revaluation of options in the period of 01.01.2019 to 31.12.2019 resulted from the exercise of 28.000 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in this period was USD 2,8 thousand.

Estimates:

The Company has measured the fair value of services received as consideration for equity instruments of the entity indirectly, by reference to the fair value of the equity instruments granted. The fair value of awarded options was estimated by an independent expert using modern financial engineering methods and the assumptions were presented in the note above. In the case of awarding further options from the available pool the valuation will be carried out on the basis of the current stock price from the date of award. A significant increase of the stock price in the future may have significant impact on the value of the costs recognized on account of the option plan.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 16 Major events after the balance sheet date

The following material events occurred after the balance sheet date:

COVID-19 coronavirus pandemic

At the end of 2019, news from China regarding COVID-19 (coronavirus) emerged for the first time. In early 2020, the virus spread around the world, and its negative impact gained momentum. The Board considers such a situation not as an event that would cause adjustments to the financial statement for 2019, but as an event occurring after the balance sheet date and requiring additional disclosures. The Board is closely monitoring the situation and looking for ways to minimize its impact. The Report has been drawn up on the assumption that the business will continue as a going concern in the foreseeable future.

In connection with the coronavirus pandemic, the Board also observes significant difficulties in accessing capital. In the context of these difficulties, the Board's activities related to cost reduction are also aimed at reducing the need for capital financing current operations, and thus accelerating the achievement of break-even point and self-financing by the Group.

Conclusion of an agreement with ASI Bridge Alfa Bitspiration Booster

On 7 January 2020, Silvair, Inc. concluded a dispositive agreement with *ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k.* (hereinafter: ASI Bridge), which transfers the ownership of shares in Sway sp. z o.o. (a company from the Silvair Capital Group). Under this agreement, the Company acquired 6,200 shares in Sway sp. z o.o., and thus became its partner. As payment for the above shares, the Company transferred - to ASI Bridge - a Bond issued as part of the Series III Bonds issue with a value of USD 441,000. As part of the Company's IPO, ASI Bridge acquired 91,722 ordinary shares of the Company as a result of the conversion of receivables arising from the Bond. The subject agreement is the result of the implementation of ASI Bridge obligations resulting from the Support Agreement (the entrustment of a grant) concluded between NCBiR and ASI Bridge on 28 March 2018 in accordance with the project implemented under the Smart Development Operational Program 2014-2020, i.e. a project - related to the Internet of Things (IoT) industry - entitled: "Identification of the topology of lighting fixtures layout by the way of directional measurement of lighting intensity", as well as the investment agreement concluded by SWAY sp. z o.o. and ASI Bridge as part of the above project.

Conclusion of an agreement with F2VS Technologies

On 21 January 2020, Silvair, Inc. entered into a license agreement with F2VS Technologies, Inc. with its registered office in the U.S. (hereinafter: F2VS), pursuant to which the Company and its subsidiaries may use certain F2VS technological solutions covered by patent protection in their products and services during the term of such agreement. The concluded agreement constitutes a settlement based on which F2VS dismissed its complaint in the case brought against Silvair.

Notification on a change of shares in the total number of votes at the General Meeting of Silvair, Inc.

On 27 January 2020, Silvair, Inc. informed that it had received - from Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. - notifications on a change of share in the total number of votes at the Company's

General Meeting by investment funds managed by Ipopema Towarzystwo Funduszy Inwestycyjnych S.A. The content of the notification was published by the Company in Current Report No. 1/2020.

Changes in the Board of Directors of Silvair, Inc.

On February 4, Silvair, Inc. received information from Marek Kapturkiewicz about his resignation from the function of a member of the Board of Directors, as well as from the function of a member of the Company's Audit Committee. At the same time, the Company appointed Christopher Morawski as a non-executive director, member of the Board of Directors, and a member of the Company's Audit Committee. The Issuer informed about this change in Current Report No. 3/2020 of 7 February 2020.

Christopher Morawski studied at McGill University in Montreal, Canada, where in 1981 he graduated of Bachelor of Mechanical Engineering. Between 1981-1993, he worked as a Project Engineer at Pratt&Whitney (Canada) and Principal Design Engineer at McDonnell Douglas Aircraft (now Boeing) in Long Beach, California, USA, where he was responsible for technical specification and standardization of engine installations in passenger aircrafts. In the years 1995-2019, he was the President and independent Director of Nitrex USA Holding. From 2014 to the present, he has been the owner and director of Astantis, LLC in Nevada (USA). From 1984 until now, he has been a partner and member of the management board at Nitrex Metal, Inc. based in Canada, where he is responsible, among others, for developing and implementing the concept of the company's expansion on the American, Chinese and European markets. His activities focus in particular on strategic product development, market analysis and the company's financial modeling. He has directed numerous projects regarding the establishment of subsidiaries and international limited company restructuring, including acquisitions and mergers, which resulted in the global expansion of the Nitrex capital group. One of his key competences is also managing the operating and financial segments of enterprises, including communication with investors and shareholders. Currently, Christopher Morawski is a member of the management board at Nitrex Metal Inc., where, taking advantage of many years of experience in the field of international capital and financial transactions, he is a strategic advisor for the company's mergers & acquisitions.

Patent dispute with JSDQ

On 13 February 2020, JSDQ, based on the alleged infringement of JSDQ patents by the Company, made a proposal to conclude a license agreement with the Company, the scope of which grants the Company the right to use JSDQ technological solutions covered by certain patents. Based on the facts, the Company is of the opinion that its products and services do not infringe JSDQ patents. In the Company's opinion, this court case is an example of the so-called patent trolling. Nevertheless, taking into account the duration and potential costs of possible court proceedings relating to the case, or the need to conclude such a license agreement, the Company decided to establish a provision.

Information on transactions concerning shares in Silvair, Inc.

On 28 February 2020, 29 February 2020, 2 March 2020, and 3 March 2020, Silvair, Inc. received - from Christopher Morawski, a member of the Company's Board of Directors - notifications on transactions relating to shares which are referred to in Article 19 Section 1 of the MAR Regulation. The content of notifications was made public by the Company in Current Reports No. 4/2020, 5/2020, 6/2020, and 7/2020.

Update of information regarding the issue of securities by Silvair, Inc.

On 4 March 2020, as part of the issue of Convertible Notes approved by the Board of Directors, the Company issued Convertible Notes with a nominal value of USD 0.5 million.

Change of the stock option plan

On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, and granting stock options for 523,312 shares to designated employees. The options will be able to be exercised from 1 January 2021. The change is a direct result of the Board's decision to reduce the Group's operating costs - in connection with the coronavirus pandemic and its economic impact – by i.a. reducing employment and changing remuneration conditions for the Group's key employees and associates.

Loans

In the period from 1 January 2020 to the date of this report, Silvair, Inc. granted loans to its subsidiary Silvair Sp. z o.o. the total value of which was PLN 2.7 million (USD 700 thousand).

Note 17 Information on joint ventures

There were no joint ventures in the current and previous financial year.

Note 18.1 Financial risk management objectives and principles

The Company's operations are exposed to the following types of financial risk:

- credit risk,
- liquidity risk,
- market risk:
- currency risk,
- interest rate risk,
- other price risk.

Credit risk is the risk that one party to a financial instrument fails to discharge its obligation to the Company causing financial loss for the Company. Credit risk arises in receivables, cash and cash equivalents, deposits, bonds purchased and security deposits paid. The information on the risk associated with the loans granted to the subsidiary is presented in Note 2 Financial assets (non-current). The Company manages the credit risk associated with cash through diversifying banks in which it deposits surplus cash. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of such items. A description of the credit risk is presented in Note 2 Financial assets (non-current).

Liquidity risk is the risk that arises when the Group meets difficulties in fulfilling is obligations related to financial liabilities. Considering the stage of the Company's development, the pace of adoption of the developed technology and the innovative nature of the products based on this technology, we are exposed to a risk that we will not be able to fulfill our obligations when due, in particular due to limited access to funding, failure to earn revenues, delay in earning revenues or earning lower future revenues than assumed, or increased costs resulting from the development of our activity or other factors. The Company takes a number of actions aimed at securing the funding for its current and future capital requirements, primarily through concentrating efforts on commercialization of its products, in parallel with efforts aimed at achieving the breakeven point as soon as practicable, and raising funding in the transition period from: issue of convertible notes, stock issue addressed to existing shareholders and a group of new investors, and research and development support programs (subsidies). In 2020, the Company plans to use up the limit under the current bond issue IV, carry out a new bond issue or a share issue. In the share issue, conversion of issue IV bonds is likely to take place. Redemption of convertible securities before maturity on the holder's request is possible with the Company's consent. The Company does not plan an early redemption but assumes a conversion of bonds into shares. The Company monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of for assets and liabilities and projected cash flows from operating activity.

Financial liabilities by maturity date as at 31 December 2019.

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 year
Bank loans	-	-	-	-	-
Bond liabilities	-	-	2 954	-	-
Trade liabilities	-	55	-	-	-
Lease liabilities	-	-	-	-	-
Total	**-**	**55**	**2954**	**-**	**-**

Financial liabilities by maturity date as at 31 December 2018.

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 year
Bank loans	-	-	-	-	-
Bond liabilities	-	-	-	-	-
Trade liabilities	55	-	-	-	-
Lease liabilities	-	-	-	-	-
Total	**55**	**-**	**-**	**-**	**-**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Because of the global character of the business conducted by Silvair, Inc., in which most of the revenues are generated in USD and EUR, while most expenses are incurred in PLN, the Group is exposed to risk related to sudden changes in exchange rates, including in particular appreciation of PLN and depreciation of EUR vs. USD. The Company monitors the currency rates and discerns a continuing trend of appreciation of USD vs. PLN. This trend is good for the Company from the perspective of earning revenues in USD and EUR. When significant revenues appear, the Company will take steps to use instruments hedging sudden exchange rate fluctuations.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not invest any surplus funds in interest-bearing assets based on floating interest rates and accordingly it is not exposed to the risk related to changes in interest rates. The principal risk of changes in interest rates is related to debt instruments. In 2019 and 2018, the Company did not use any external debt instruments (loans and bonds) with a floating interest rate, the interest rate on which would depend on changes in interest rates. Accordingly, it was not exposed to changes in cash flows resulting from changes in interest rates.

Other price risks are the risks that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market. The Company does not use financial instruments associated with price risk. The Company is not exposed to other price risk.

The Group's financial risk management is coordinated by the Parent Company in close collaboration with the Management Boards of the subsidiaries. In the risk management process, these are the most important goals:

- secure short- and medium-term cash flows,
- stabilize fluctuations in the Group's financial performance,
- fulfill planned financial forecasts by meeting the relevant budget assumptions,
- achieve a rate of return on long-term investments and obtain optimal sources of funding for investment activities.

The Group does not execute transactions on financial markets for speculative purposes. The main financial instruments used by the Parent Company and the subsidiaries include bank loans, cash and short-term deposits, bonds. The Group also holds various other financial instruments, such as trade receivables and payables, which arise directly from its activities. The Group does not classify any instruments categorized as loans and borrowings to financial liabilities designated for measurement at fair value through profit or loss. All loans, borrowings and other debt instruments are carried at amortized cost using the effective interest rate. The Company assesses the risk associated with concentration of business partners, foreign currencies, markets and debt instruments as low.

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item	31 Dec 2019 fair value	31 Dec 2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Loans	8 521	8 521	-	-	8 521	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Receivables other than above, which are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	905	905	-	-	905	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Financial liabilities by balance sheet item	31 Dec 2019 fair value	31 Dec 2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	2 954	2 954	-	2 954	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	55	55	-	55	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Financial assets by balance sheet item	31 Dec 2018 fair value	31 Dec 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Loans	4 446	4 446	-	-	4 446	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	-	-	-	-	-	-
Receivables other than above, which are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	1,995	1,995	-	-	1 995	-
Cash	461	461	-	-	461	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Financial liabilities by balance sheet item	31 Dec 2018 fair value	31 Dec 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	55	55	-	55	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

Revenue, cost, profit and loss recognized in the statement of comprehensive income by financial instrument category

Year ended 31 December 2019

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-	-	-	-
Loans	F	308	-73	-	-	235
Cash and cash equivalents		22	2	-	-	24
Total		**330**	**-71**	**-**	**-**	**259**

Financial liabilities	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of the impairment losses	Gains / (losses) on measurement	Total
Bank loans	F	-	-	-	-	-
Finance leases	F	-	-	-	-	-
Bond liabilities	F	-42	-	-	-	-42
Trade liabilities	F	-	-	-	-	-
Other liabilities which are financial liabilities	F	-	-	-	-	-
Total		**-42**	**-**	**-**	**-**	**-42**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Year ended 31 December 2018

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of the impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-	-	-	-
Loans	F	186	-15	-	-	171
Cash and cash equivalents		16	-54	-	-	-38
Total		**202**	**-69**	**-**	**-**	**133**

Financial liabilities	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of the impairment losses	Gains / (losses) on measurement	Total
Bank loans	F	-	-	-	-	-
Finance leases	F	-	-	-	-	-
Bond liabilities	F	-	-	-	-	-
Trade liabilities	F	-	-	-	-	-
Other liabilities which are financial liabilities	F	-	-	-	-	-
Total		**-**	**-**	**-**	**-**	**-**

A – Assets measured at fair value through profit or loss
B – Assets measured at fair value with changes through other comprehensive income
C – Assets measured at amortized cost
D – Financial liabilities measured at fair value through profit or loss
E – Financial liabilities measured at fair value through other comprehensive income
F – Financial liabilities measured at amortized cost

Sensitivity analysis

As for 31 December 2019 and at the end of 2018, the Group did not hedge its transactions denominated in foreign currencies. The following table presents the sensitivity of the gross financial result (due to movement in the fair value of cash assets and liabilities) to reasonable fluctuations in the exchange rate of the US dollar (“USD”), assuming that other factors remain unchanged. According to the Group’s estimates, the impact of exchange rate fluctuations on the Group’s equity and total comprehensive income would be similar to the impact on the gross financial result, when income tax is taken into account.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Currency risk 1 January 2019 – 31 December 2019

The tables depict the effects of fluctuations in the USD/PLN exchange rate, i.e. the exchange rate between the only currencies that are relevant to the Group companies.

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Loans	8 521	- 775	-	947	-
Long-term security deposits and other long-term receivables	-	-	-	-	-
Trade receivables	-	-	-	-	-
Receivables other than above, which are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	905	-	-	-	-
Cash in bank	905	-	-	-	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	2 954	-	-	-	-
Trade liabilities	55	5	-	-6	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Currency risk 1 January 2018 – 31 December 2018

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Loans	4 447	-404	-	494	-
Long-term security deposits and other long-term receivables	-	-	-	-	-
Trade receivables	-	-	-	-	-
Receivables other than above, which are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	2 004	-246	-	154	-
Cash	461	-55	-	35	-
Cash in bank	461	-55	-	35	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	55	5	-	-6	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Financial instruments by currency

Year ended 31 December 2019

Financial assets	**USD**	**PLN**	**EUR**	**Total**
Loans granted	3 146	5 375	-	8 521
Long-term	-	-	-	-
Short-term	3 146	5 375	-	8 521
Trade receivables	-	-	-	-
Cash and cash equivalents	897	3	5	905
Cash in bank	897	3	5	905
Financial liabilities	**USD**	**PLN**	**EUR**	**Total**
Bank loans	-	-	-	-
Finance leases	-	-	-	-
Bond liabilities	2 954	-	-	2 954
Trade liabilities	55	-	-	55
Liabilities other than above, which are financial liabilities	-	-	-	-

All figures, unless indicated otherwise, are expressed in thousands of USD.

Year ended 31 December 2018

Financial assets	USD	PLN	EUR	Total
Interest and shares	-	15 835	-	15 835
Loans granted	2 427	2 019	-	4 446
Long-term	2 427	2 019	-	4 446
Short-term	-	-	-	-
Trade receivables	-	-	-	-
Bank deposits	-	1 995	-	1 995
Cash and cash equivalents	8	461	1	470
Cash in bank	8	461	1	470
Financial liabilities	**USD**	**PLN**	**EUR**	**Total**
Bank loans	-	-	-	-
Finance leases	-	-	-	-
Bond liabilities	-	-	-	-
Trade liabilities	55	-	-	55
Liabilities other than above, which are financial liabilities	-	-	-	-

Note 18.2 Capital risk management

The Company manages capital to maintain its capacity to continue its activity, taking into account the planned capital expenditures, so that it can generate returns for shareholders and bring benefits to other stakeholders and also to maintain the optimum capital structure to reduce its cost.

In line with the market practices, the Company is monitoring capital, among others on the basis of the debt to equity ratio.

The debt to equity ratio is calculated as the ratio of debt to financial capital. Debt is calculated as the sum of financial liabilities (loans, borrowings) and trade liabilities, while financial capital is the sum of equity and financial liabilities.

All figures, unless indicated otherwise, are expressed in thousands of USD.

In order to maintain financial liquidity and credit capacity that would enable the entity to raise external financing at a reasonable cost level, the Company assumes that its equity ratio will be maintained at no more than 50%.

Item	31 December 2019	31 December 2018
Debt	3 029	55
Equity	18 319	18 690
Reserve capital, total	21 348	18 745
Debt to equity ratio	14.19%	0.29%

Note 19 Company authorized to audit financial statements

The annual standalone financial statements prepared as at 31 December 2019 and the annual standalone financial statements prepared as at 31 December 2018 were reviewed by Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań, ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor's fee for auditing the annual standalone financial statements for 2019 was PLN 11,000.

The net amount of the contractor's fee for auditing the annual standalone financial statements for 2018 was PLN 11,000.

Note 20 Loans granted by the Company to persons comprising management and supervisory bodies

In the financial period, the Company did not conduct transactions with Members of the Board of Directors, Officers, Management Board Members and Supervisory Board Members or their spouses, relatives by blood and by marriage, which involved the granting of loans to the above persons.

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 21 Compensation of key management personnel

Compensation of key management personnel on account of short-term employee benefits:

Item	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Rafał Han	72	72
Szymon Słupik	72	72
Adam Gembala	72	72
Oktawian Jaworek	-	8
Gross compensation paid	**224**	**253**

Compensation of key management personnel on account of share-based payments

Item	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	164	102
Gross compensation paid	**224**	**253**

Total compensation of key personal

Total compensation of key management	1 January 2019 – 31 December 2019	1 January 2018 – 31 December 2018
Rafał Han	236	174
Szymon Słupik	72	72
Adam Gembala	72	72
Oktawian Jaworek	-	8
Total compensation	**380**	**326**

All figures, unless indicated otherwise, are expressed in thousands of USD.

Note 38 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company:

- Silvair Sp. z o.o.
- Sway Sp. z o.o.

The Parent Company holds directly 9% shares in w Sway Sp. z o.o. and 100% shares in Silvair Sp. z o.o., which in turn holds 91% shares in Sway Sp. z o.o.

The following transactions were effected in the reporting period between parties related by equity:

Loan agreement between Silvair, Inc. as the lender and Silvair Sp. z o.o as the borrower.

As at 31 December 2019, in connection with this loan, Silvair, Inc. posted a receivable under the loan from Silvair Sp. z o.o. in the amount of USD 8,521 thousand (principal) and as at 31 December 2018, it posted a receivable in the total amount of USD 4,447 thousand.

The Company assumes that the loan will be settled through conversion to capital.

Interest accrued on the loan for 2019 amounted to USD 308 thousand.

Trade settlements within the Group

As at 31 December 2019, Silvair, Inc. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities. As at 31 December 2018, Silvair, Inc. posted a trade liability to Silvair Sp. z o.o. in the amount of PLN 205 thousand (USD 54 thousand).

Neither in the reporting period nor in the comparable period did Silvair, Inc. execute any transactions its related party Sway Sp. z o.o.

Entities having personal ties with Group companies:

Transactions between entities with personal ties:

Neither the Company's key management personnel nor their close family members controlled, jointly controlled or exerted any significant influence on or were members of key personnel of any entities that entered into material transactions with the Company in the reporting period.

Transactions with the key management personnel

Key management personnel:

Key management personnel is comprised of the persons who, directly or indirectly, have the right to and are responsible for planning, managing and controlling of the Company's activities. In the reporting period, the key management personnel was comprised of:

Rafał Han – Chief Executive Officer

Szymon Słupik – Chief Technology Officer, President of the Board of Directors

Adam Gembala – Chief Financial Officer, Vice-President of the Board of Directors, Secretary and Treasurer

Paweł Szymański – Non-executive Director

Marek Kapturkiewicz – Non-executive Director

Compensation received by the key management personnel in connection with their functions and on account of share-based payments is described in Note 21.

The annual standalone financial statements for the period from 1 January to 31 December 2019 (including comparative data) were approved for publication by the Board of Directors on 06 April 2020.

Rafał Han

Chief Executive Officer

Szymon Słupik

Chief Technology Officer (CTO),
President of the Board of Directors

Adam Gembala

Chief Financial Officer,
Vice-President of the Board of Directors,
Secretary and Treasurer

Paweł Szymański

Director

Christopher Morawski

Director

All figures, unless indicated otherwise, are expressed in thousands of USD.