Annual standalone financial statements of Silvair, Inc.

Kraków, 30 April 2019

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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

Silvair, Inc. is the Group's parent company preparing the financial statements.

Silvair is an American company with Polish roots, developing software for Internet of Things (IoT) solutions. The Company operates globally. The Company currently focuses on implementation of a technology that will be used by producers of lighting systems and smart building management systems.

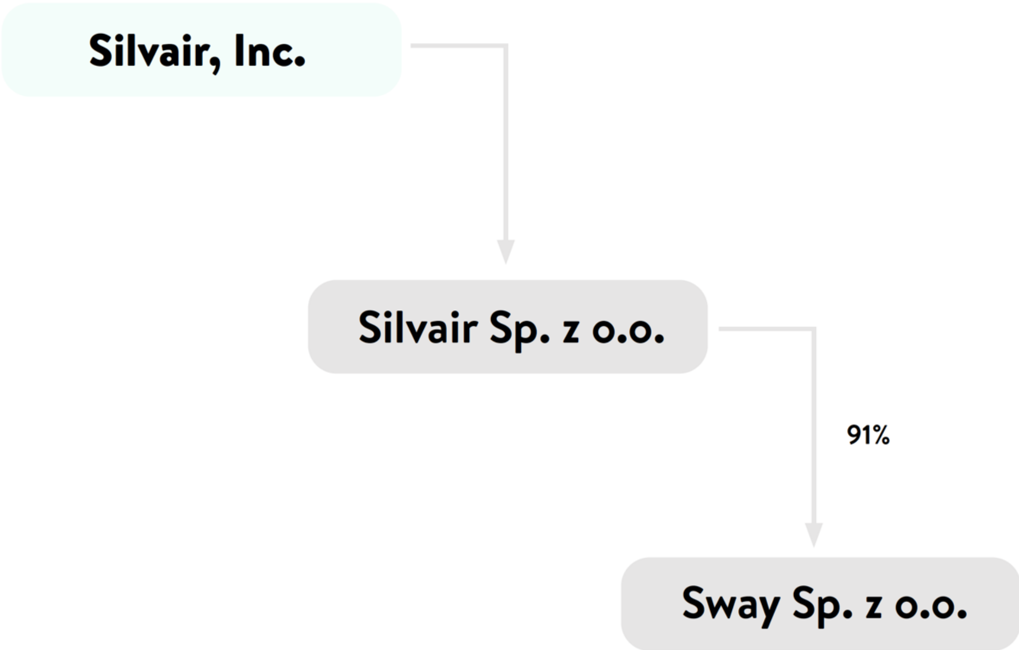
Silvair's strategic aim is to become the leader in the market of IoT solutions, including smart lighting control and a key supplier of the technology based on the Bluetooth Mesh standard. Silvair was the co-author of the new standard Bluetooth Mesh, approved in mid-2017, and is the first company in the world whose solutions have obtained the qualification of the new standard.

Silvair believes that popularization of the Bluetooth Mesh standard will be the beginning of a revolution in the area of commercial smart lighting systems and will cause their rapid development owing to the introduction of solutions adapted to high market requirements.

The company's leading role and the use of its original solutions in the Bluetooth Mesh standard development process give it a privileged competitive position in the process of commercializing solutions based on this technology.

Silvair, Inc. is the parent company of the following subsidiaries: Silvair Sp. z o.o. with its registered office in Kraków and Sway Sp. z o.o. with its registered office in Kraków.

The Group



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").

These standalone financial statements have been prepared for the purposes of fulfillment of the disclosure obligations of the Company as an issuer of securities listed on the Warsaw Stock Exchange. In accordance with Delaware law, the Company is not required to prepare standalone financial statements.

Presentation periods

The standalone financial statements have been prepared as at 31 December 2018 and cover the period of 12 months, i.e. from 1 January 2018 to 31 December 2018.

For the data presented in the statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2017.

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 2017 to 31 December 2017.

Going concern assumption

The statements have been drawn up based on the going concern assumption for the foreseeable future. The Company's Board of Directors believes that as at the date of the financial statements there are no circumstances indicating a threat to the Company continuing as a going concern.

The Company focuses its endeavors on the commercialization of developed products with the objective of achieving the break-even point as soon as feasible. Contracts that have been executed by the Company have already generated initial revenue flows (which fact will be disclosed in the report for Q1 2019), and Silvair's intention is to keep expanding the scale of commercialization of its products in 2019 and beyond.

At the same time, the Board of Directors, in collaboration with its financial advisor, is involved in activities aimed at evaluating and selecting the most favorable funding arrangement for the Company. The scenarios of possible funding deals for the Company's operations that have been reviewed by the Board of Directors include a new series of common shares that might potentially be issued within the limit of authorized capital as part of an offering targeted at selected eligible investors. In particular, in compliance with the regulations defining exemptions from the obligation to publish a prospectus for the purpose of offering shares and applying for the listing of its shares on a regulated market, Silvair, Inc. may effect a private placement or a public offering of common shares targeted, for instance, at a group of eligible investors and, subsequently, introduce to trading on a regulated market a total of up to 20% of shares listed on the Warsaw Stock Exchange (WSE).

The amendments to corporate documents of Silvair, Inc. made in 2018 before the launch of the IPO project included the introduction of the possibility for the Company to issue, within the limit of its authorized capital, up to 2.6 million common shares solely by virtue of a decision of the Board of Directors, that is without the requirement to obtain any additional approval from the Company's shareholders. Under the IPO project, Silvair, Inc. placed 1,184,910 shares. As a consequence, after the completion of the IPO project, the share pool available within the limit of authorized capital currently contains approx. 1.4 million common shares that may be issued on a relatively short notice without the requirement to obtain any additional corporate approvals from the Company's shareholders or the conduct of any complex administrative procedures.

Taking into account the current market valuation of the Silvair, Inc. stock listed on the WSE, making an additional assumption that all shares available under the authorized capital are placed at the current market price, the Company may count on raising approx. USD 5-6 million in new equity, subject to market conditions and the Company's current valuation at the time of such a transaction. It should be noted that the valuation of stock in such a transaction would take into account the valuation of both Silvair, Inc. as at the date of its execution, which may fluctuate along with the development of commercialization of the Company's products, and a possible discount to the market price, which is impossible to estimate as at the date of provision of this information. As at the date of this information, the Board of Directors has not made any decisions regarding the date, structure or possible boundary conditions of any funding transaction. In parallel with analytical work on the implementation of the above scenario, the Board of Directors has been reviewing the possibility of issuing the 4th Series of Convertible Notes with a value of at least USD 3 million as part of a bridge funding arrangement in the event that unsatisfactory market conditions prevail and thus adversely affect the possibility of the successful application of the said scenario or the risk emerges of postponement of its implementation in relation to the adopted assumptions. The analytical work conducted by the Board of Directors in this area taps into, in particular, the Company's experience in carrying out a funding transaction based on the same instrument in previous years, including during the preparations for the IPO project.

Composition of the corporate bodies of the Parent Company as at 31 December 2018

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)

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 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 2018 – 31 December 2018	1.1798	1.1235	1.2528	1.1437
1 January 2017 – 31 December 2017	1.1362	1.0410	1.2064	1.1981

Average USD/PLN exchange rates in the periods covered by the 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 2018 – 31 December 2018	0.2762	0.2613	0.3014	0.2660
1 January 2017 – 31 December 2017	0.2671	0.2366	0.2872	0.2872

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

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.

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 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2018	1 Jan2017 – 31 Dec 2017	1 Jan 2018 – 31 Dec 2018	1 Jan 2017 – 31 Dec 2017
Net revenue on the sale of products, goods and materials	-	-	-	-	-	-
Profit/(loss) from operating activities	-463	-303	-398	-266	-1,677	-1,133
Profit (loss) before tax	-328	-337	-278	-296	-1,188	-1,235
Profit (loss) of the period	-324	-341	-290	-300	-1,238	-1,277
Net cash flows from operating activities	- 1,047	-340	-888	-299	-3,792	-1,272
Net cash flows from investing activities	-3,796	-23	-3,218	-20	-13,745	-86
Net cash flows from financing activities	6,923	-47	5,868	-41	25,069	-176
Total net cash flows	2,080	-410	1,763	-360	7,532	-1,534

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 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Total assets	18,300	12,364	16,001	10,320	68,803	43,042
Liabilities and provisions for liabilities	55	34	48	28	207	119
Non-current liabilities	-	34	-	28	-	119
Current liabilities	55	-	48	-	207	-
Equity	18,245	12,330	15,952	10,291	68,596	42,924
Share capital	1,138	973	995	812	4,279	3,388
Number of shares	11,380,420	9,732,495	11,380,420	9,732,495	11,380,420	9,732,495
Weighted average number of shares	10,556,458	9,297,995	10,556,458	9,297,995	10,556,458	9,297,995
Earnings/(loss) per share (in USD and EUR)	-0.03	-0.04	-0.03	-0.03	-0.11	-0.13
Book value per share (in USD and EUR)	1.61	1.27	1.41	1.06	6.05	4.42

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 31 December 2017 and to the extent required by the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 20 April 2018 Item 757).

Representations by the Board of Directors on the preparation and publication of the financial statements for 2018 are presented in the Report by the Board of Directors of Silvair, Inc. on the activity of the Silvair Group and Silvair, Inc. for 2018.

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 2018	31 Dec 2017
A. Non-current assets		**15,835**	**11,979**
I. Costs of development work		-	-
II. Other intangible assets		-	-
III. Property, plant and equipment	**1**	-	5
IV. Financial assets	**2**	15,835	11,974
V. Deferred tax assets		-	-
B. Current assets		**2,465**	**385**
I. Inventory		-	-
II. Trade receivables		-	-
III. Other receivables		-	-
IV. Prepayments and accruals		-	-
V. Financial assets		-	-
VI. Cash and cash equivalents	**3**	2,465	385
Total assets		**18,300**	**12,364**

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

	Note No.	31 Dec 2018	31 Dec 2017
A. Equity		**18,245**	**12,330**
I. Share capital	**4**	1,138	973
II. Capital from revaluation of options	**5**	155	23
III. Other capital	**6**	20,910	15,051
IV. Capital from foreign exchange differences from translation of foreign operations		-	-
V. Retained earnings	**7**	-3,616	-3,376
VI. Financial result of the current period		-342	-341
B. Minority interest			
C. Non-current liabilities		-	34
I. Deferred tax liabilities		-	-
II. Other non-current liabilities		-	34
D. Current liabilities	**9**	55	-
I. Trade liabilities	**9.1**	55	-
II. Other current liabilities	**9.2**	-	-
III. Prepayments and accruals		-	-
Equity and liabilities		**18,300**	**12,364**

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 2018 – 31 December 2018	1 January 2017 – 31 December 2017
A.	**Revenue**		-	-
B.	**Cost of sales**		-	-
C.	**Gross sales result**		-	-
	I. Selling and distribution expenses		14	19
	II. General and administrative expenses		449	283
D.	**Net result on sales**		**-463**	**-302**
	I. Other operating income		-	-
	II. Other operating expenses		-	1
E.	**Operating result**		**-463**	**-303**
	I. Financial income	**12**	204	0
	II. Financial costs	**13**	69	34
F.	**Result before tax**		**-328**	**-337**
	I. Income tax		14	4
	current part	**14**	14	4
	deferred part		-	-
G.	**Profit/(loss) for the period**		**-342**	**-341**
	profit/(loss) attributable to:		-	-
	shareholders of the parent company		-342	-341
	non-controlling interest		-	-

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

Annual standalone statement of other comprehensive income	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit/(loss) for the period	**-342**	**-341**
Other comprehensive income	**166**	**30**
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	166	30
Total comprehensive income	**-176**	**-312**

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	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity
At the beginning of the period 1 January 2018	**973**	**287**	**15,051**	**-**	**-4,004**	**-**	**12,307**
Changes in accounting policies	-	-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 through IPO	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	-	102	-	1,572
Foreign exchange differ-ences from translation	-	-	-	-	-	-	-
Result of the period	-	-	-	-	-	-342	-342
At the end of the period 31 December 2018	**1,138**	**155**	**20,910**	**-**	**-3,616**	**-342**	**18,245**

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	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity
At the beginning of the period 1 January 2017	**886**	**2,771**	**12,470**	**-**	**-3,376**	**-**	**12,751**
Changes in accounting policies	-	-	-	-	-	-	-
At the beginning of the period 1 January 2017	**886**	**2,771**	**12,470**	**-**	**-3,376**	**-**	**12,751**
Exercise of stock options for Company shares	87	-2,778	2,778	0	0	0	87
Valuation of stock options under IFRS 2	0	294	0	0	0	0	294
Expenditures incurred in connection with the planned stock issue	0	0	-327	0	0	0	-327
Bonds convertible to shares classified as equity instruments	0	0	130	0	0	0	130
Foreign exchange differ-ences from translation	0	0	0	0	0	0	0
Result of the period	0	0	0	0	0	-628	-628
At the end of the period 31 December 2017	**973**	**287**	**15,051**	**0**	**-3,376**	**-628**	**12,307**

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

Annual standalone statement of cash flows

	Note No.	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Profit (loss) before tax		**-328**	**-341**
Adjustments for:		**-719**	**1**
1. Depreciation and amortization	**1**	5	1
2. Foreign exchange gains (losses)		69	-7
3. Interest and profit sharing (dividends)		-51	34
4. Movement in inventory		-	1
5. Movement in receivables		-	-
6. Movement in current liabilities, except for loans and borrowings		55	-
7. Tax paid		14	4
8. Movement in prepayments and accruals		-	-
9. Other adjustments resulting from operating activity		-811	-32
Net cash from operating activities		**-1,047**	**-340**
Proceeds		-	-
1. Disposal of intangible assets and property, plant and equipment		-	-
2. From financial assets, including:		-	-
in related entities		-	-
in other entities		-	-
Expenditures		-3,796	23
1. Purchase of intangible assets and property, plant and equipment		-	-
2. Expenditures incurred for development work		-	-
3. For financial assets, including:		-3,796	23

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

Loans to related entities	-3,796	23
Net cash from investing activities	**-3,796**	**23**
Proceeds	6,923	-47
1. Net proceeds from issuing shares and additional capital contributions	6,872	-47
2. Loans and borrowings drawn	-	-
3. Interest	51	-
Expenditures	-	-
1. Repayment of loans and borrowings	-	-
2. Interest	-	-
Net cash from financing activities	**6,923**	**-47**
Net cash flows	**2,080**	**-410**
Movement in cash	**2,080**	**-410**
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**385**	**795**
Cash and cash equivalents at the end of the period	**2,465**	**385**

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 2018, the Company effected a retrospective correction of an error made in the previous reporting period. This error concerned the share-based payment agreements described in Note 15. As at 31 December 2017, the Company published an erroneous calculation of the balance of capital from revaluation of management options and incorrectly presented the costs of options granted to employees of subsidiaries as payroll costs. The consequences of the correction are described below.

Impact on the standalone financial statements

Statement of financial position as at 31 December 2017	
Item	**Amount**
Financial assets (long-term)	22,879
Capital from revaluation of options	263,981
Financial result	286,860

Statement of financial position as at 31 December 2017	
Item	**Amount**
Financial assets (long-term)	22,879

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

Impact on earnings/(loss) per share

Earnings/(loss) per share in the period covered by the financial statements: 31 December 2017	
Item	**Value**
Weighted average number of the company's shares in the period	9,297,995
Number of diluting options	584,000
Weighted average number of the company's shares in the period after diluting options	9,881,995
Loss before the correction (USD '000s)	-628
Loss after the correction (USD '000s)	-341
Earnings/(loss) per share (USD) after the correction	-0.04
Diluted earnings/(loss) per share (USD) after the correction	-0.03

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

Impact of changes on the financial statements

Statement of financial position (USD '000s)	Year 2017 published	Change	Year 2017 corrected
A. Non-current assets	**11,956**	**23**	**11,979**
I. Costs of development work	-	-	-
II. Other intangible assets	-	-	-
III. Property, plant and equipment	5		5
IV. Financial assets	11,951	23	11,974
V. Deferred tax assets	-	-	-
B. Current assets	**385**	**-**	**385**
I. Inventory	-	-	-
II. Trade receivables	-	-	-
III. Other receivables	-	-	-
IV. Prepayments and accruals	-	-	-
V. Financial assets	-	-	-
VI. Cash and cash equivalents	385	-	385
Total assets	**12,341**	**23**	**12,364**

	Year 2017 published	Change	Year 2017 corrected
A. Equity	**12,307**	**23**	**12,330**
I. Share capital	973		973
II. Capital from revaluation of options	287	-264	23
III. Other capital	15,051		15,051
IV. Capital from foreign exchange differences from translation of foreign operations	-	-	-
V. Retained earnings	-3,376	-	-3,376
VI. Financial result of the current period	-628	287	- 341
B. Minority interest	-	-	-
C. Non-current liabilities	-	-	-
I. Deferred tax liabilities	-	-	-
II. Other non-current liabilities	-	-	-
D. Current liabilities	**55**	-	**55**
I. Trade liabilities	55	-	55
II. Other current liabilities	-	-	-
III. Prepayments and accruals	-	-	-
Equity and liabilities	**287**		**12,364**

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

Standalone profit and loss account	1 Jan 2017 – 31 Dec 2017 published	Change	1 Jan 2017 – 31 Dec 2017 corrected
A. Revenue	-	-	-
B. Cost of sales	-	-	-
C. Gross sales result	-	-	-
I. Selling and distribution expenses	19	-	19
II. General and administrative expenses	570	-287	283
D. Net sales result	**-589**	**287**	**-302**
I. Other operating income	-	-	-
II. Other operating expenses	1	-	1
E. Operating result	**-590**	**287**	**-303**
I. Financial income	-	-	-
II. Financial costs	34	-	34
F. Result before tax	**-624**	**287**	**-337**
I. Income tax	-4	-	4
current part	4	-	4
deferred part	-	-	-
G. Profit/(loss) for the period	**-628**	**-**	**-341**
profit/(loss) attributable to:		-	-
shareholders of the parent company	-628	-	-341
non-controlling interest	-	-	-

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

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 under IFRS Regulation (European Commission 1606/2002), hereinafter referred to as "EU IFRS".

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

New and amended standards and interpretations

Amendments to standards or interpretations applied by the Company since 2018

New or amended standards and interpretations that have been in force since 1 January 2018 and their impact on the standalone financial statements:

- New IFRS 9 "Financial Instruments"

  Classification of financial instruments according to IFRS 9 is presented in Note 18.1.

- New IFRS 15 "Revenue from Contracts with Customers"
- The Company did not report any sales revenues in 2017 or 2018, thus the new standard has no impact on the financial statements
- Amendments to IFRS 2 "Share-based Payment"
- Amendments to IFRS 4 "Insurance Contracts"
- Amendments to IAS 28 "Investments in Associates and Joint Ventures"
- Amendments to IAS 40 "Investment Property"
- New IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

As a result of an analysis, it was found that the application of the aforementioned standards had no significant impact on the financial statements.

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 2018 and their impact on the Company's consolidated financial statements.

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

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 2018. The list also includes amendments, standards and interpretations that have been published but not yet endorsed by the European Union.

- New IFRS 16 "Leases"

  This standard is effective for annual periods beginning on or after 1 January 2019.

- Amendments to IFRS 9 "Financial Instruments"

  These amendments are effective for annual periods beginning on or after 1 January 2019.

- New IFRIC 23 "Uncertainty over Income Tax Treatments"

  This interpretation is effective for annual periods beginning on or after 1 January 2019.

- Amendments 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.

  These amendments are effective for annual periods beginning on or after 1 January 2019.

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 are effective for annual periods beginning on or after 1 January 2019.

- New IFRS 17 "Insurance Contracts"

  This standard is effective for annual periods beginning on or after 1 January 2021.

- Amendments to IAS 19 "Employee Benefits"

  This standard is effective for annual periods beginning on or after 1 January 2019.

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

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

- Amendments to IFRS 3 "Business Combinations"

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 amendments in question will not affect the Company's financial statements.

The Company estimates that the above standards, interpretations and amendments to standards would have had no material influence on the annual standalone financial statements, had they been applied by the Company as at the balance sheet date. 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

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 2018	31 December 2017
PLN/USD	0.2762	0.2872

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

	Year ended 31 December 2018	Year ended 31 December 2017
PLN/USD	0.2762	0.2671

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.

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

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:

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.

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.

Trade and other receivables

Receivables from customers and other financial receivables are measured at fair value at initial recognition and at amortized cost as at the balance sheet date using the effective interest rate minus impairment losses. At the moment of recognition of a financial asset, the entity estimates the expected credit losses using a 3-step model based on changes in credit risk.

If the impact of time value of money is material, 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.

Other receivables include in particular advances provided on account of future purchases property, plant and equipment, intangible assets and inventory. Advances are presented in line with the type of assets to which they refer – as non-current or current assets respectively. As non-pecuniary assets, advances are not discounted.

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.
- Retained earnings.
- Financial result of the current period.

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.

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 to the value of the share premium account,

- 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.

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.

Trade liabilities and other non-financial liabilities

Liabilities are the Company's present liabilities resulting from past events, the fulfilment 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.

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), and
- 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.

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.

The Company activates 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. Activated 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 materials consumed and the production cost of completed development work 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.

Notes and explanations to the annual standalone financial statements

Note 1.1 Property, plant and equipment

Property, plant and equipment	31 December 2018	31 December 2017
a) fixed assets, including:	-	5
land	-	-
buildings and structures	-	-
plant and machinery	-	5
means of transport	-	-
other fixed assets	-	-
b) fixed assets under construction	-	-
Total	**-**	**5**

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

The Company has no land in perpetual usufruct.

The Company has no property, plant and equipment with restricted property and use rights.

As at 31 December 2018 and 31 December 2017, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 31 December 2018 and 31 December 2017, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

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

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 2018**	-	-	**13**	-	-	-	**13**
	Additions, including:	-	-	-	-	-	-	-
	acquisition	-	-	-	-	-	-	-
	other	-	-	-	-	-	-	-
	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**	-	-	**0**	-	-	-	**0**

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 2017**	-	-	13	-	-	-	13
	Additions, including:	-	-	-	-	-	-	-
	acquisition	-	-	-	-	-	-	-
	other	-	-	-	-	-	-	-
	Reductions	-	-	-	-	-	-	-
2.	**Gross value as at 31 December 2017**	-	-	13	-	-	-	13
3.	**Accumulated depreciation as at 1 January 2017**	-	-	8	-	-	-	8
	Additions	-	-	-	-	-	-	-
	Reductions	-	-	-	-	-	-	-
4	**Accumulated depreciation as at 31 December 2017**	-	-	8	-	-	-	8
5	**Net value as at 1 January 2017**	-	-	5	-	-	-	5
6	**Net value as at 31 December 2017**	-	-	5	-	-	-	5

Note 2 Financial assets

Financial assets (long-term)	31 December 2018	31 December 2017
Loans granted	4,446	650
Interests in subsidiaries	11,389	11,301
Total	**15,835**	**11,974**

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

The line item “Interests in subsidiaries” includes 100% shares in Silvair Sp. z o.o. with its registered office in Kraków.

As described in Note 22, in 2018, Silvair Inc. granted three loans in the total amount of USD 3,645 thousand to its subsidiary Silvair Sp. z o.o.

Note 3 Cash and cash equivalents

Cash and cash equivalents	31 December 2018	31 December 2017
Cash on hand	-	-
Cash in bank	470	385
Other cash (term deposits)	1,995	-
Total	**2,465**	**385**

Note 4 Share capital

Share capital as at 31 December 2018

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

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**

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**

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.

Share capital as at 31 December 2017

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

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	4,709,000	471	471	0
Preferred Stock	960,000	96	125	29
Series A Preferred Stock (Trigon)	1,500,000	150	4,995	4,845
Series A Preferred Stock (Convertible Notes)	2,563,495	256	7,141	6,884
Total	**9,732,495**	**973**	**12,732**	**11,758**

Share capital ownership structure	Number of shares	% of shares
Szymon Słupik	1,884,711	19.36
Rafał Han	1,296,441	13.32
Funds managed by Trigon	1,248,243	12.83
Adam Gembala	1,018,760	10.47
Onico S.A.	574,712	5.90
Other shareholders holding less than 5% of shares	3,709,628	38.12
Total	**9,732,495**	**100.00**

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 2018	31 December 2017
Valuation of stock options under IFRS 2	155	23
Total	**155**	**23**

Note 6.1 Other capital

Other capital	31 December 2018	31 December 2017
Other capital	20,910	15,051
Total	**20,910**	**15,051**

Note 6.2 Changes in other capital

In the period from 1 January 2018 to 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**

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

In the financial year ended 31 December 2017:

Changes in other capital	Other capital
As at 1 January 2017	**12,470**
Exercise of stock options for Company shares	2,778
Expenditures incurred in connection with the planned stock issue	-327
Issue of bonds convertible to shares	130
As at 31 December 2017	**15,051**

Note 7 Retained earnings

Retained earnings	31 December 2018	31 December 2017
Accumulated losses brought forward	-3,616	-3,376
Total	**-3,616**	**-3,376**

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, as described in the section on events after the balance sheet 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 2018	31 December 2017
Weighted average number of the company's shares in the period	10,556,458	9,297,995
Earnings/(loss) per share (USD)	-0.05	-0.06
Number of diluting options	611,550	584,000
Weighted average number of the company's shares in the period after diluting options	10,503,726	9,881,995
Diluted earnings/(loss) per share (USD)	**-0.03**	**-0.06**

Note 8.2 Contingent liabilities, including guarantees and sureties extended by the Company, including bills of exchange

As at 31 December 2018 and 31 December 2017, the Company had no other contingent liabilities.

As at 31 December 2018 and 31 December 2017, 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.

Note 9 Current liabilities

Note 9.1 Trade liabilities

Trade liabilities	31 December 2018	31 December 2017
to related entities	55	-
to other entities	-	-
Total	**55**	**-**

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

Aging of trade liabilities

Trade liabilities	31 December 2018	31 December 2017
up to one month	-	-
over 1 month to 3 months	55	-
over 3 months to 6 months	-	-
over 6 months to 1 year	-	-
over 1 year	-	-
Total	**55**	**-**
of which overdue	-	-

Note 9.2 Other liabilities (current)

Other liabilities (current)	31 December 2018	31 December 2017
Interest on bonds convertible to shares (*)	-	34
Total	**-**	**34**

(*) Bonds and notes are presented in other capital in the Company's balance sheet.

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

As at 31 December 2018 and 31 December 2017, the Company had no other contingent liabilities.

As at 31 December 2018 and 31 December 2017, 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 2018	Financial year ended 31 December 2017
Depreciation and amortization	5	-
Consumption of materials and energy	-	-
External services	170	26
Taxes and fees	-	-
Payroll, including share-based payments (Note 15)	288	276
Social security and other benefits	-	-
Other costs by nature	-	-
Cost of products and materials sold	-	-
Total costs by type	**463**	**302**
Movement in inventory of products and production cost of products for own use (development work)	**-**	**-**
Cost of sales	-	-
Selling and distribution expenses	14	19
General and administrative expenses	449	283
Total costs by function	**463**	**302**

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

Note 12 Financial income

Financial income	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Interest	**202**	**-**
Interest on bank deposits and accounts	16	-
Interest on loans from related entities	186	-
Other	**2**	**-**
Total financial income	**204**	**-**

Note 13 Financial costs

Financial costs	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Interest	**-**	**34**
To other entities	-	34
Interest on bonds convertible to shares	-	34
Other	**69**	**0**
Financial costs	**69**	**34**

Current year costs related to interest convertible into stock are recognized in equity in connection with a conversion of bonds into shares.

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

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 2018	Financial year ended 31 December 2017
Gross loss	**-342**	**-337**
Tax	14	4
Impact of change in the deferred tax asset	-	-
Impact of movement in the deferred tax liability	-	-
Total charges to profit before tax	**14**	**4**

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.

By 31 December 2017, options have been granted from the "Option Pool" for all the shares for the Management Board and Venture FIZ, as well as 70,000 out of 132,000 shares for the Key Personnel.

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

By 31 December 2017, all the options granted to the Management Board members and Venture FIZ have been exercised and in the Key Personnel pool, options for 30,000 shares will be exercised by 31 December 2017.

By 31 December 2018, options for further 15,000 shares for Key Personnel had been exercised.

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. By 30 June 2018, options for all the shares envisaged for Rafał Han in the pool had already been granted. By 31 December 2017 and as at 31 June 2018, no stock options had been exercised from in the Additional Option Pool. The Company 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 1 January 2017 to 31 December 2018

	in 2018	in 2017
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	**544,000**	**1,453,000**
Number of shares granted under option agreements	353,000	909,000
Number of shares taken up in exercise of the options	15,000	869,000
Number of shares available to be taken up in subsequent periods under option agreements	378,000	40,000
Number of shares released upon expiration of options	-	-
Number of shares available to be granted under further option agreements at the end of the period	**191,000**	**544,000**

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.

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

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%.

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

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Management cost	166	30
Capital from revaluation of options	166	30

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

	Financial year ended 31 December 2018	Financial year ended 31 December 2017
Other capital	34	2,788
Capital from revaluation of options	-34	-2,788

The change in capital from revaluation of options in 2017 resulted from the exercise of 869,000 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 2017 was USD 87 thousand.

The change in capital from revaluation of options in 2018 resulted from the exercise of 15,000 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 the period from 1 January to 31 December 2018 was USD 1.5 thousand.

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:

In the period from 1 January 2019 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 5,000,000.

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 Preference Founder Shares, 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, alongside the existing options to purchase 278,000 Common Shares granted under the Stock 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 contract as at the date of granting the shares in question.

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.

Main operating segments of the Company – production of software for remote communication between devices and smart lighting systems – due to their nature are not exposed to a significant level of this type of risk. Sales in these segments are largely to a stable client base and are made on deferred payment terms.

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

However since the business partner pay the due amounts regularly, the exposure to individual credit risk is not high. The Company applies internal procedures and mechanisms that mitigate this risk: appropriate client selection, a new client review system and ongoing monitoring of amounts receivable. The Company consistently pursues the recovery of overdue receivables. The Company invests its cash in reliable financial institutions (selected on the basis of ratings). The Company is exposed to immaterial levels of credit risk.

Liquidity risk is the risk that arises when the Company encounters difficulties in fulfilling is obligations related to financial liabilities. The Company makes sure that liquidity is maintained at an appropriate and safe level.

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.

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 2018 and 2017, 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.

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						
Interest and shares	11,389	11,389	-	-	-	11,389
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	-	-	-	-	-

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

Financial assets by balance sheet item	31 Dec 2017 fair value	31 Dec 2017 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						
Interest and shares	11,324	11,324	-	-	-	11,324
Loans	650	650	-	-	-	650
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	385	385	-	-	-	385

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

Financial liabilities by balance sheet item	31 Dec 2017 fair value	31 Dec 2017 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	232	232	-	232	-
Measurement of other instruments - derivatives	-	-	-	-	-
Trade liabilities	-	-	-	-	-
Liabilities other than above, which are financial liabilities	34	34	-	34	-

Sensitivity analysis

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 Company.

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					
Interest and shares	11,388	-1,035	-	1,265	-
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.

Currency risk 1 January 2017 – 31 December 2017

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% sdecrease)
Financial assets					
Interest and shares	11,324	-1,748	-	375	-
Loans	650	41	-	-50	-
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	385	-	-	-	-
cash in bank	385	-45	-	55	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	-	-	-	-	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	232	-21	-	26	-
Trade liabilities	-	-	-	-	-
Liabilities other than above, which are financial liabilities	34	-3	-	4	-

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

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.

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 2018	31 December 2017
Debt	55	34
Equity	18,245	12,330
Reserve capital, total	18,300	12,364
Debt to equity ratio	0.30%	0.28%

Note 19 Company authorized to audit financial statements

The annual standalone financial statements were audited by Grant Thornton Polska sp. z o.o. sp. k. with its registered office in Poznań at ul. Abpa Antoniego Baraniaka 88E.

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

The interim standalone financial statements were reviewed by UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Kraków at ul. Moniuszki 50.

The net amount of the contractor’s fee for reviewing the standalone financial statements was PLN 15,800.

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

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.

Note 21 Compensation of key management personnel

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

Item	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Rafał Han	72	78
Szymon Słupik	72	79
Adam Gembala	72	80
Oktawian Jaworek	8	16
Paweł Szymański	-	-
Marek Kapturkiewicz	-	-
Gross compensation paid	**224**	**253**

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

Item	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Rafał Han	102	-
Szymon Słupik	-	-
Adam Gembala	-	-
Gross compensation paid	**102**	-

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

Total compensation of key personnel

Total compensation of key management	1 January 2018 – 31 December 2018	1 January 2017 – 31 December 2017
Rafał Han	174	78
Szymon Słupik	72	79
Adam Gembala	72	80
Oktawian Jaworek	8	16
Paweł Szymański	-	-
Marek Kaputkiewicz	-	-
Total compensation	**326**	**253**

Note 22 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 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. (formerly Seed Labs, Inc.) as the lender and Silvair Sp. z o.o. (formerly Seed Labs Sp. z o.o.) as the borrower. In 2018, Silvair, Inc. granted loans with a total amount of USD 1,650 thousand and PLN 7,500 thousands and, as at 31 December 2018, showed a receivable in the total amount of USD 4,446 thousand, including interest of USD 85 thousand.

In the reporting period, the IPO costs incurred by Silvair Sp. z o.o. were reinvoiced. In the comparable period, no transactions were executed between the Companies other than those involving loans.

As at 31 December 2018, Silvair, Inc. posted a liability to Silvair Sp. z o.o. in the amount of PLN 205 thousand (USD 55 thousand) on account of the said transaction.

As at 31 December 2017, both Silvair Sp. z o.o. and Silvair, Inc. posted no mutual receivables or other liabilities.

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

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 any Group Companies 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 standalone financial statements for the year ended 31 December 2018 (including comparative data) were approved for publication by the Board of Directors on 30 April 2019.

Rafał Han	Szymon Słupik	Adam Gembala
Chief Executive Officer	Chief Technology Officer (CTO), President of the Board of Directors	Chief Financial Officer, Vice-President of the Board of Directors, Secretary and Treasurer
Paweł Szymański	Marek Kapturkiewicz	
Director	Director	

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