

Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc. in 2018

Kraków, 30 April 2019

Dear Investors, Employees and Shareholders,

For the Silvair Group, 2018 was another year of implementation of our ambitious plans and rapid development on key North American and European markets. We expanded the ecosystem of our partners using the Silvair technology in their products by establishing cooperation with manufacturers of lighting components, including McWong International, Murata, Fulham, DG Light, and partnership arrangements with manufacturers of lighting fixtures, including Sylvania, the Zumtobel Group and Demand Lighting. In 2018, we presented for the first time our partners' components using our technology during the industry's most prestigious global fair Light + Building held in Frankfurt. The L+B fair is an event attracting over 200,000 visitors from all over the world and more than 1,700 exhibitors. In May of last year, during the LightFair International, we publicly presented Silvair Commissioning – a product forming part of the platform responsible for the construction and management of lighting networks.

The first contracts for the sale of Silvair Commissioning (our digital tool for the configuration of smart lighting networks), based on the Bluetooth mesh technology in the Lighting Control as a Service (LCaaS) model, were signed with the US-based component manufacturer Fulham Co. and with Zumtobel Group AG.

One of our key business initiatives was the rollout of the Silvair technology in the Murata office building in Dallas, Texas. The showroom created in this building is a place where Silvair's partner meets with its customers and demonstrates to them that the technology is ready for immediate commercialization.

In July 2018, the initial public offering Silvair, Inc. stock was held. As a result of the IPO, we not only raised PLN 20.1 million in equity from institutional and retail investors, which we have invested predominantly in the commercialization and marketing of our products on the American and European markets. The other benefit of the IPO was that we became a much more reliable and transparent company for our partners.

For Silvair, 2019 will be, above all, the year of the rollout of our solution based on the Bluetooth mesh standard and of the establishment of new strategic partnerships. In Q1 2019, our partner, McWong, completed the first stage of modernization of its lighting system in a 2,300-square meter warehouse in Sacramento, California. To the best of our knowledge, this is the largest rollout of a solution based on the Bluetooth mesh standard in any warehouse to date.

The market for smart lighting control systems is in a strong upward trend. Our partners have been consistently confirming the growing requirements of customers who reach out for lighting solutions that reconcile the quality of light with the concept of energy efficiency. We are continuously strengthening the Silvair brand as a reliable partner in lighting control. We still have a lot of work to do as the introduction of any new technology requires time. However, we believe that the upcoming periods will definitely bring a breakthrough.

Respectfully,

Rafał Han

CEO & Co-Founder, Silvair, Inc.

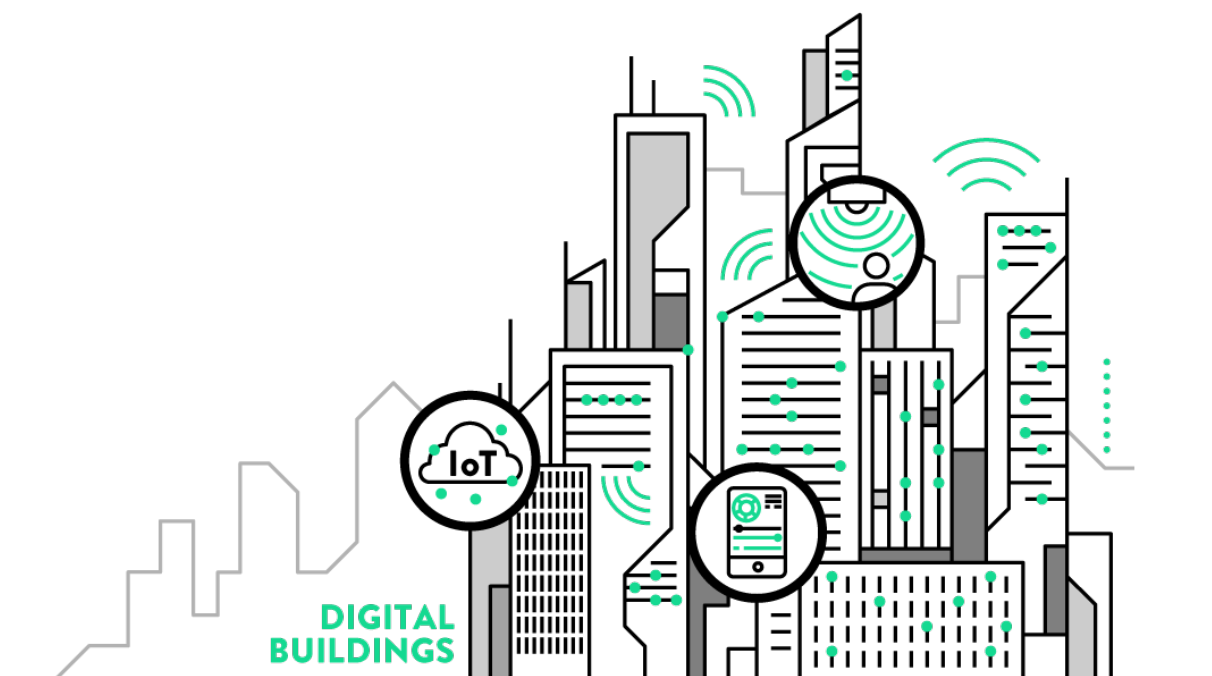
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All figures, unless indicated otherwise, are expressed in thousands of USD.

General information

Silvair is a U.S.-based company with Polish roots developing software for the Internet of Things (IoT). We are the world's first provider of software based on the Bluetooth mesh technology.



Internet not of 'things' but of data...

What is the Internet of Things? It is a concept whereby objects are able to directly or indirectly collect, process or exchange data via a computer network.

According to the report entitled "Worldwide Semiannual Internet of Things Spending Guide IDC", the value of the IoT market in 2020 may be as much as USD 1.5 trillion. According to Gartner's analysts (as published in "Top Strategic Predictions for 2018 and Beyond, 2017"), as early as in 2020, 95% of all new devices will operate in the Internet of Things.

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Silvair Group in 2018

IPO of Silvair, Inc. on the Warsaw Stock Exchange on 26 July 2018

PLN 20.1 million was raised as a result of the initial public offering (IPO) from institutional and retail investors. The newly acquired capital has been put to use in accordance with the purposes of the issue and includes:

- Expenditures on research and development work.
- Funding of large-coverage promotional activities focused on key markets in the United States and the European Union.
- Funding the creation of distribution channels, activities aimed at attracting new partners and building a team of representatives responsible for the sale of products.

Our partners have been consistently confirming the growing requirements of clients who reach out for economical lighting solutions that satisfy the highest ergonomic and ecological standards.

- Establishing cooperation with new international partners, such as Murata, McWong, Fulham and the Zumtobel Group.
- Murata Manufacturing is one of the world's largest manufacturers of electronic components. Its market capitalization on the Tokyo Stock Exchange is USD 37 billion and its annual sales reach approx. USD 12.4 billion. The company employs nearly 60,000 staff around the world.
- McWong International is a Chinese-American manufacturer of a broad assortment of lighting components. For over 30 years, the company has designed and manufactured electronic components, including advanced lighting control devices.
- Signing of the first contract for the sale of Silvair Commissioning (a component of the Silvair platform) to the U.S.-based manufacturer Fulham Co. The contract pertains to the provision of tools to configure a smart lighting network based on the Bluetooth mesh technology, in the Lighting Control as a Service (LCaaS) model.
- Fulham is one of the global suppliers of lighting components. Among others, it offers lighting systems dedicated to commercial properties, hospitals, schools and warehouses. Already in March 2018, Fulham presented publicly its solutions based on the Bluetooth mesh standard and the Silvair software.
- Signing of contracts with Zumtobel Group AG, an international supplier of comprehensive professional solutions for outdoor and indoor lighting systems. Under these contracts, Silvair granted its partner a non-exclusive license to use the Silvair Lighting Firmware along with the Silvair MaTE tool and provided it with access to Silvair Commissioning, which is a digital tool for the configuration of a smart lighting network based on the Bluetooth mesh technology, under the Lighting Control as a Service (LCaaS) model.
- Zumtobel Group AG is a leading global provider of comprehensive professional lighting solutions with a distribution network covering 90 countries. The group offers a broad range of high quality LED

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luminaires and lighting management systems for professional lighting of buildings, in particular in offices, educational institutions and industrial facilities.



**Winner of the prestigious Trends in Lighting award
for the best solution in the smart lighting category**

Award for the best set of tools enabling quick and simple installation of wireless lighting networks granted during the Trends in Lighting event held in Bregenz, Austria.

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

Operating activities of the Silvair Group and Silvair, Inc.

Key events and achievements in 2018

Accession to the American National Standards Institute (ANSI) and the International Electrotechnical Commission

In February 2018, Silvair, Inc. joined the following two organizations:

American National Standards Institute (ANSI) – an organization focused on the development, publication and dissemination of technological standards. Within the structure of ANSI, the C137 Group handles issues related to standardization of lighting control solutions.

International Electrotechnical Commission (IEC) – an international standards organization that prepares and publishes international standards for all electrical, electronic and related technologies, which form the basis for national standards and benchmarks for tenders and international contracts.

Grant from the National Center for Research and Development for activities constituting an R&D project

On 28 March 2018, the between National Center for Research and Development (NCBiR), ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. and Sway sp. o.o. (a member of the Silvair Group) entered into a Support Agreement (for the entrustment of a grant) to execute a project under the Smart Development Operational Programme 2014-2020 ("Support Agreement"). Pursuant to the Agreement, Sway Sp. z o.o. is to receive a NCBiR grant of up to PLN 3.4 million, for the implementation of tasks included in the B+R Project, specified in the Agreement, 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".

Presentation of the first range of the Company's products

In March 2018, the first range of products offered by the Company's partners was presented at the Light+Building fair in Frankfurt. The L+B fair is an event attracting over 200,000 visitors from all over the world and more than 1,700 exhibitors.

Execution of a contract with McWong International Inc. based in Sacramento, California

On 27 April 2018, the Company concluded an agreement with McWong International Inc., with its registered office in Sacramento, California, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed McWong as a non-exclusive partner responsible for marketing the Silvair Lighting Firmware and granted McWong non-exclusive licenses for, without limitation, the use of the Silvair product for integration, testing and demonstration purposes as well as for reproduction and sale.

Execution of a contract with Murata Manufacturing Co., Ltd. based in Kyoto, Japan

On 22 May 2018, the Company entered into a contract with Murata Manufacturing Co., Ltd based in Kyoto, Japan, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Murata as a non-exclusive partner responsible for marketing the Silvair Lighting Firmware and granted Murata non-exclusive licenses for, without limitation, the use of the Silvair product for integration, testing and demonstration purposes as well as for reproduction and sale.

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Execution of a contract with Danlers Limited based in Chippenham, England

On 11 June 2018, the Company executed a contract with Danlers Limited based in Chippenham, England, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Danlers as a non-exclusive partner responsible for marketing the Silvair Lighting Firmware and granted Danlers non-exclusive licenses for, without limitation, the use of the Silvair product for integration, testing and demonstration purposes as well as for reproduction and sale.

Approval of the Silvair, Inc. prospectus in connection with the public offering of the Company's stock

On 25 June 2018, the Polish Financial Supervision Authority (KNF) approved the Company's prospectus prepared in connection with the initial public offering of the Company's stock and its intention to apply for admission of the Silvair stock to trading on the regulated market.

Execution of a contract with Fulham Co., Inc. based in Hawthorne, California

On 27 June 2018, the Company executed a contract with Fulham Co., Inc. based in Hawthorne, California, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool and ancillary services. Silvair also appointed Fulham as a non-exclusive partner responsible for marketing the Silvair Lighting Firmware and granted Fulham and its related entities non-exclusive licenses for, without limitation, the use of the Silvair product for integration, testing and demonstration purposes as well as for reproduction and sale.

Issue of the Company's convertible promissory notes ("Series Three Notes")

In the period from 27 December 2017 to 25 June 2018, the Company issued convertible promissory notes („Series Three Notes”), of the total par value of USD 2,141.0 thousand, out of which USD 2,051.0 thousand from 1 January 2018. The Company issued Series Three Notes with a total par value of USD 2,141.0 thousand. All issued Notes were converted into the Company's stock as part of the IPO.

Issue of stock by way of a public offering, first listing on the Warsaw Stock Exchange

On 16 July 2018, 1,184,910 common bearer shares of the Company were issued, of a par value of USD 0.10 each, and issue price of PLN 17.00, offered in a public offering. Furthermore, in connection with the issue of the Company's shares referred to above, (i) 4,063,495 common bearer shares of were issued with a par value of USD 0.10 each as a result of the conversion of 4,063,495 of Silvair, Inc.'s Series A Preferred Stock, and (ii) 448,015 common bearer shares with a par value of USD 0.10 each were issued as a result of the conversion of Series Three Notes.

On 26 July 2018, the Company's common stock debuted on the Warsaw Stock Exchange.

Appointment of a member of the Silvair, Inc. Board of Directors

On 4 September 2018, the Company's Board of Directors appointed Marek Kapturkiewicz to the Board of Directors. At the same time, Mr. Kapturkiewicz was appointed member of the Company's Audit Committee.

Execution of a contract with DG Light S.r.l.

On 6 September 2018, the Company's subsidiary, Silvair sp. z o.o., signed an agreement with DG Light S.r.l. with its registered office in Cumiana, Italy, for Silvair to deliver the Silvair Lighting Firmware with the Silvair MaTE tool, issue licenses and provide auxiliary services. Silvair also appointed DG Light as a non-exclusive partner responsible for introducing Silvair Lighting Firmware on the market and, on the terms and conditions

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set forth in the agreement, granted DG Light non-exclusive licenses for, among others, the use of the Silvair product for integration, testing and demonstration purposes and for reproduction and sale.

Execution of a contract with Fulham Co., Inc.

On 17 December 2018, the Company entered into an agreement with Fulham Co., Inc. based in Hawthorne, California, under which the Company undertook to provide, operate and maintain digital tools for planning, setup and commissioning of smart lighting networks and provide related services to Fulham.

Execution of contracts with Zumtobel Group AG

On 21 December 2018, Silvair sp. z o.o., a subsidiary of the Issuer, entered into an agreement with Zumtobel Group Agent based in Dornbirn, Austria, for the delivery, by the Company, of the Silvair Lighting Firmware with the Silvair MaTE tool and auxiliary services to Zumtobel and an agreement under which the Company undertook to provide, operate and maintain digital tools for planning, setup and commissioning of smart lighting networks and provide related services to Zumtobel.

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Material events after the balance sheet date

Signing of a letter of intent and start of negotiations with OSRAM GmbH

On 28 March 2019, the Company and OSRAM GmbH signed a letter of intent under which the parties commenced negotiations with a view to entering into one or several agreements on privileged technical and commercial cooperation to facilitate the introduction, to the professional lighting market in the EMEA region, of Bluetooth low energy mesh wireless systems ("BLE") offered by OSRAM, based on the customized BLE network ecosystem developed by the Company. As at 30 April 2019, the negotiations have not been completed. The Company is continuing the negotiations with the intention to finalize them within the shortest possible timeframe. The commencement of negotiations with OSRAM does not mean that any contracts will be entered into with OSRAM or that any final decisions or binding commitments have been made in this respect. The Company will inform the public on the execution, if any, of a contract with OSRAM or on any other outcome of the negotiations in a separate current report.

Execution of a contract with Linmore LED

On 21 March 2019, Silvair, Inc. signed a contract for the sale of Silvair Commissioning tools (parts of the Silvair platform) with Linmore LED Labs, Inc., a U.S.-based manufacturer of lighting fixtures. The contract pertains to the provision of tools to configure a smart lighting network based on the Bluetooth mesh technology, in the Lighting Control as a Service (LCaaS) model. Linmore LED Labs will be responsible for comprehensive cooperation with customers, that is for sales and marketing of setup tools for smart lighting networks along with after-sales support. Linmore sells its products in the United States. The contract was entered into for an indefinite term.

New partnership of Silvair with LA Lighting

In February 2019, Silvair established cooperation with a new partner: LA Lighting, a leading U.S.-based manufacturer of lighting fixtures. LA Lighting, owing to its more than 30 years of experience in the manufacture of commercial and industrial lighting fixtures, is a leader in the market for wireless control integration solutions with the whole product line. To demonstrate the Bluetooth mesh capabilities, a system demo will be installed in the partner's office in Los Angeles.

Issue of the Company's common stock as part of the Company's 2016 Stock Plan

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, 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

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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.

Silvair strengthens its North American team

In March 2019, Jim Sekinger joined the sales division as Sales Executive for the United States. Jim Sekinger has worked in the lighting industry for more than 25 years, focusing on innovation, sales and business development (development of products, markets and business models) related to smart lighting technologies. He headed the development and commercialization of several groundbreaking lighting technologies, including wireless lighting communication and cloud data architecture. For over 10 years, he worked for Philips Lighting, where his most recent position was CEO of the division responsible for lighting control solutions. During his career, he has held a number of managerial positions in companies involved in the creation of smart lighting technologies, including as VP Business Development for Adura Technologies, a company dealing with wireless lighting control, SVP Sales & Business Development for Redwood Systems, a leader in LED solutions for building management, VP Channel for Enlighted, Inc., a leading company in wireless solutions for LED lighting control systems (acquired by Siemens).

In March of this year, Szymon Słupik was again elected Chairman of the Mesh Working Group within the Bluetooth SIG

Close cooperation with the Bluetooth SIG brings additional image-boosting benefits to Silvair. By chairing the Mesh Working Group, Szymon Słupik (Silvair founder) keeps building the Group's renown and strong position on the international stage. Szymon is currently an industry expert in wireless technologies and a Bluetooth mesh expert. Both Szymon and other Silvair representatives are regularly invited to Bluetooth World conferences, Bluetooth Media Events and webinars, where they have the opportunity to share their expert knowledge and disseminate their publications. A portion of the Bluetooth SIG's marketing activities focuses on the promotion of its active members, including Silvair, both in the media and in presentations forming part of various types of reports and rankings.

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Description of the Silvair Group and its development directions

Silvair, Inc. ("Issuer", "Company") is a company established and operating under the laws of the State of Delaware. The Company was established as a corporation on 30 May 2014. It is entered into the register maintained by the Secretary of the State of Delaware under entry no. 5543093 (Delaware Corporate Number) and has been established for an indefinite period. The Company is the parent entity of the Company's group, as described in the subsequent parts of this report.

History of the Silvair Group and the Company

2011

The formal beginning of the Silvair Group's operation was marked by the of Silvair sp. z o.o. in the register of commercial undertakings. Currently, Silvair sp. z o.o. is a subsidiary of the Issuer and serves as the hub for research activities and the creation and development of the Silvair Group products.

2014

Registration of Silvair, Inc. in the United States and launch of marketing of services for commercial spaces on a global scale.

Accession by a subsidiary to the Bluetooth Special Interest Group (Bluetooth SIG).

2017

Adoption of the Bluetooth mesh standard.

The Company obtains the world's first Bluetooth SIG qualification for software stack implementation (Mesh Core) and application layer models (Mesh Model Core).

2018

First listing of Silvair, Inc. on the Warsaw Stock Exchange.

Execution of the first contracts for the delivery of a product, auxiliary services and the provision of the Silvair Lighting Firmware license and contracts for the provision of Silvair's digital tools.

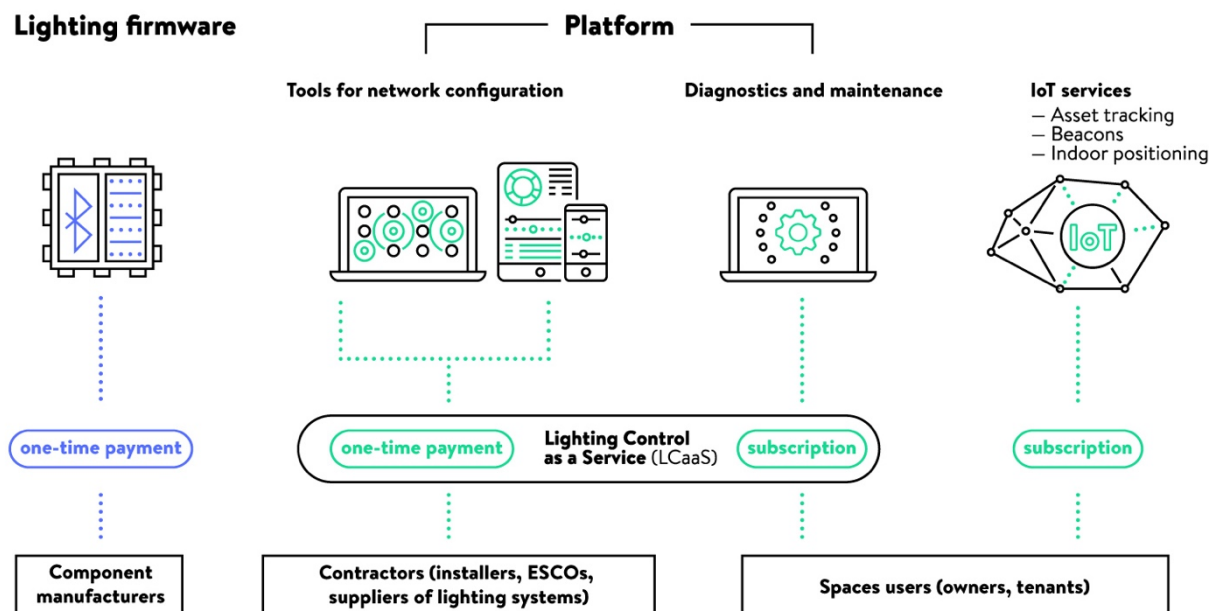
Silvair, Inc. develops software for the Internet of Things (IoT). The Company operates globally. Silvair's strategic goal is to achieve a leading position on the market of modern technology solutions in the area of the Internet of Things. Its offering includes software for smart lighting modules (Silvair Firmware). Silvair is also working on tools that enable control and management of lighting infrastructure and support analysis and use of data collected by sensors installed in lighting systems, which facilitates the provision of new, innovative services, also in the subscription model (Silvair Commissioning and Monitoring).

The **Silvair Firmware** is software installed in components produced by lighting manufacturers, which enables devices to communicate with each other. It enables autonomous control of the intensity and color of light and collection of information about how the spaces and the devices themselves are used. The Silvair software is offered to manufacturers of lighting components, including power supply units, controllers, sensors, converters, switches, etc.

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The **Silvair Platform (Silvair Commissioning and Monitoring)** is a technology and service platform comprising digital tools for the launch, configuration and management of smart lighting networks and infrastructure that enables the Company to provide innovative services, e.g. services related to property management. They will be associated with collecting, processing and visualization of data generated by the smart lighting network equipped with sensors. The services will be provided remotely, on the basis of cloud solutions, through a dedicated Internet site.

Business model



The Silvair Platform makes it possible for space users (owners and tenants) to control and manage lighting infrastructure and collect data on the use of buildings.

As part of the Silvair Platform, the Company and its partners offer services in areas that include store analytics (analytics of customer behaviors and sales), predictive maintenance (prevention service) and asset tracking (thing monitoring service).

The Silvair Platform is offered to owners and managers of private and public commercial properties and to companies offering maintenance services. As a tool for network configuration, it is also offered to contractors performing lighting installations for property owners and ESCOs (energy service companies).

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Silvair Platform Services

Examples of the possibilities offered by the Silvair Platform:

- storage of configuration data in the cloud,
- management of user entitlements,
- synchronization of data between mobile devices,
- current network monitoring,
- aggregation of information from individual devices,
- visualization of current and historical data,
- remote network management through the Internet,
- remote update of the software in installed devices (Over-the-Air Update),
- generation of periodic current and historical reports.

Implementation of the Silvair Platform makes it possible, among others, to reduce electricity consumption, but also the costs of space maintenance and improve navigation. Examples of Non Energy Benefits (NEBs):

- navigating passengers at airports to the right gates,
- sending additional promotions and discounts within the reach of specific products,
- geolocation of persons and objects with the shortest route for reaching them in indoor spaces,
- monitoring the location of medical equipment,
- detection of luggage at airports,
- monitoring the efficiency of the use of office space,
- better product display using shop traffic data,
- tracking equipment and parcels in warehouses,
- additional information about exhibits in museums and art galleries in the form of notifications on mobile devices.

The Silvair technology is based on the latest global Bluetooth mesh standard, allowing for direct communication of devices with each other. Silvair is the co-author of the new Bluetooth mesh standard, approved in mid-2017, and the first company in the world whose solutions have obtained the qualification of a new Bluetooth standard. Silvair's 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 has established cooperation with various leading manufacturers of lighting equipment, including Murata Manufacturing, McWong International, DG Light, Demand Lighting, Danlers, Fulham and the Zumtobel Group.

The Group has business and marketing presence on the global market, especially on the North American

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market (in particular in California and the state of New York) and in Western Europe (predominantly the UK, Germany, Benelux states and Italy). Our solutions have been presented at top-ranking events and lighting fairs across the world.

Board of Directors

Rafał Han, Chief Executive Officer

Co-founder of Silvair, Chief Executive Officer. Experienced entrepreneur. For a dozen or so years he was managing his own businesses operating in the area of marketing and advertising. In his companies he was responsible for, among others, global marketing strategies and negotiations with business partners from the US and Europe. He successfully co-founded numerous start-ups (including Futbolowo.pl, Estimote, Duckie Deck, ciufcia.pl) in Poland and the Silicone Valley. For nearly 5 years, he has devoted himself nearly exclusively to Silvair.

Szymon Słupik, Chief Technology Officer (CTO)

Co-founder of Silvair, President of the Board of Directors Talented individual, Chief Technology Officer and engineer in the Silicon Valley. Graduated from the AGH University of Science and Technology in Kraków with a degree in Electronics. Since 2016, he has served as Chairman of the Bluetooth mesh task force, which groups together 150 leading global technology companies. In 1992-2004, he was the founder and vice-president of CDN S.A., a company dealing with ERP systems, where he was responsible for the strategy of technological development and the software production department. Later on he occupied managerial positions in Wind Mobile (currently Ailleron).

Adam Gembala, Chief Financial Officer (CFO)

Co-founder of Silvair, Vice-President of the Board of Directors, Chief Financial Officer. Graduate of the Kraków University of Economics. He worked as a broker, managing equity and fixed income funds. Then he discharged the function of Chief Financial Officer and President or member of the management boards of various companies operating in the fuel, TMT, real estate and other sectors.

Paweł Szymański, Non-executive Director

Graduated from the Warsaw School of Economics. A securities broker holding Polish, British and U.S. licenses. Associated with such institutions as Wood & Company, Schroder Salomon Smith Barney, Citigroup, Dom Maklerski Banku Handlowego. Served as a member of the management board of such companies as PKN Orlen, CTL Logistics, ICENTIS, Ruch, Marvipol, Netia, ABC Data. Currently, President of the Management Board of Krosno Glass and Member of the Supervisory Board of Alior Bank.

Marek Kapturkiewicz, Non-executive Director

Experienced and highly valued manager, investor and engineer. Graduate of the AGH University of Science and Technology in Kraków from the Faculty of Electrical Engineering, Automatics, Computer Science and Electronics. Former Vice President of the Management Board (2005-2009) and Director (1999 – 2002) in the Onet.pl S.A. Group. Previously, also Director for Product Promotion and Development at Tymbark S.A. (1996-1999) In 1985-1996, Constructor Specialist at the Institute for Advanced Technologies in Kraków.

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| Name of the member of the Board of Directors | Function | Original date of assuming the function of the member of the Board of Directors |
|--|---|--|
| Rafał Han | Chief Executive Officer | 30 May 2014 |
| Szymon Słupik | Chief Technology Officer, President of the Board of Directors | 30 May 2014 |
| Adam Gembala | Chief Financial Officer, Vice-President of the Board of Directors, Secretary and Treasurer | 30 May 2014 |
| Paweł Szymański | Non-executive Director | 25 May 2018 |
| Marek Kapturkiewicz | Non-executive Director | 4 September 2018 |

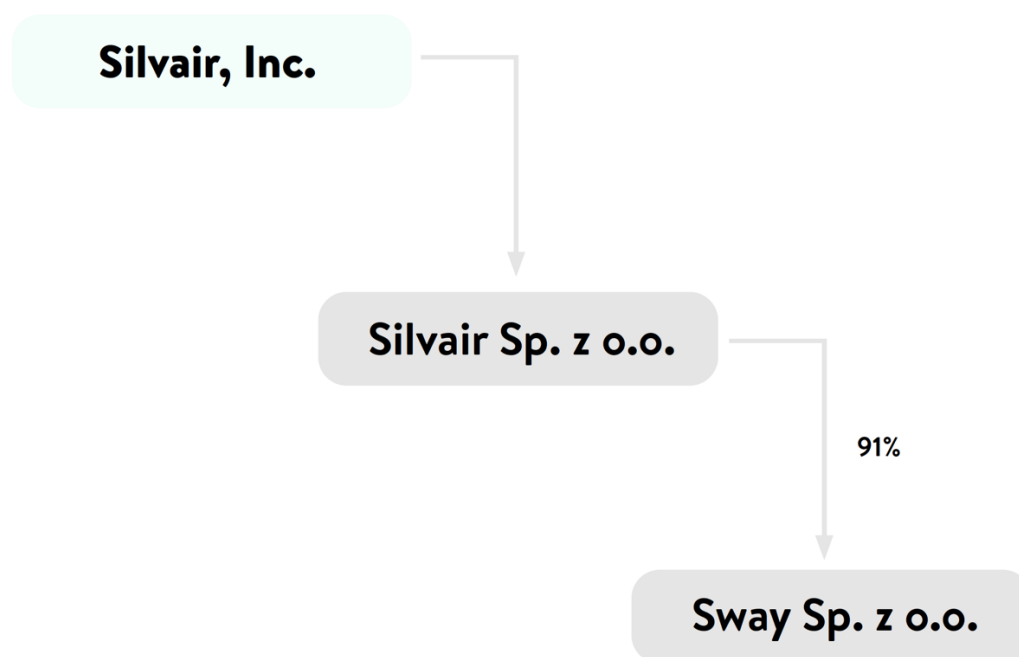
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Structure of the Silvair Group

The Group comprises Silvair, Inc., which is the parent company, and two subsidiaries: Silvair Sp. z o.o and Sway Sp. z o.o (“Subsidiaries”), which are consolidated by the Company. The Company is controlled by its founders: Szymon Stupik, Rafał Han, Adam Gembala and Maciej Witaliński (“Founders”).

The Company is a holding entity which at present does not run any operating business but oversees the operating activities of the Subsidiaries (as described hereinbelow), which hold the core assets of the Group.

Presented below is the structure of the Group as at 31 December 2018, showing the Company’s percentage share in the share capital of each of the Subsidiaries, resulting from the number of shares held in them.



Silvair, Inc. is the Group’s parent company preparing consolidated financial statements. As at 31 December 2018, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o.

Silvair Sp. z o.o.

The Company holds directly 100% of shares in Silvair sp. z o.o, which represents 100% of the total votes at the shareholder meeting.

Sway Sp. z o.o.

The Company holds directly 91% of shares in Sway sp. z o.o, which represents 91% of the total votes at the shareholder meeting.

On 18 May 2018, the Extraordinary Shareholder Meeting of Sway Sp. z o.o adopted a resolution to increase the share capital of Sway Sp. z o.o., from PLN 3,100,000.00 do PLN 3,410,000.00, i.e. by PLN 310 thousand, by the way of issuing 6,200 new shares of a par value of PLN 50.00 (“Shares”). The Shares were acquired by

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ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. ("ASI"). An amendment to the articles of association of Sway Sp. z o.o, reflecting the issue of Shares, was registered in the Court Register (KRS) on 22 June 2018.

On 18 May 2018, the Company executed an agreement with ASI on the exchange of shares in Sway Sp. z o.o., pursuant to which ASI undertook to transfer the shares to the Company. By 31 December 2018, no share purchase agreement was entered into with ASI.

No changes were recorded in the organization of the issuer's Group from 2017 to 2018. In particular, there was no merger with another entity, control was not lost over a subsidiary or any of the Group's long-term investments. There was no demerger, restructuring or discontinuation of a portion of operations by the Company.

There have been no new changes in the Group's structure after the balance sheet date.

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

Operating segments

The Silvair Group identifies the following 4 operating segments in its business activity:

- Silvair Platform
- Silvair Mesh Stack
- Wi-Home
- Proxi

The **Silvair Mesh Stack** segment consists of universal firmware based on the Bluetooth Mesh standard, intended primarily for installation in electronic components of lighting products and in sensory devices. The firmware is versioned depending on the type of device, its functionality and supported communication protocol. In this segment the Company also classifies the above firmware that is modified or upgraded based on the clients' individual requirements (custom firmware). The Company earns revenues in this segment from sales of firmware licenses.

The **Silvair Platform** segment consists of a bundle of services related to the management of a smart lighting network and the usage of data generated by such network to provide services going beyond smart lighting. Where the services within the platform are provided directly by the Company, the revenues consist of periodic fees charged for a specific service bundle. Where the services within the platform are provided by third parties, the Company earns a revenue share in the fees charged by the service provider.

The **Proxi** system consists of: custom firmware compliant with the Bluetooth Low Energy standard to be installed in light switch box modules (flush-mounted) and a mobile iOS and Android app supporting wireless control of home devices (lighting, blinds, roller shutters, garage doors). The Company earns revenue in this segment from sales of firmware licenses and radio modules.

The **Wi&Home** system is a comprehensive wireless data exchange technology for a smart building management system. The solution has been designed mainly for home use and supports remote control of devices, based mainly on radio transmission over the 868 MHz band. The Company earns revenues in this segment by selling middleware licenses.

Following a strategic decision to focus its business on the Bluetooth mesh technology only, the Group has redirected its efforts to the development of the Silvair Mesh Stack and Silvair Platform segments. Accordingly, the historically presented BLE Stack segment has been combined with the Silvair Mesh Stack segment. At the same time, the Group is no longer developing the Wi-Home and Proxi segments, which are based on older technologies. Nevertheless, these segments still generate some revenues and therefore are recognized in the Group's financial statements.

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Research and development

Several years of diligent efforts and major investments in the development of the Bluetooth Low Energy technology were crowned with the establishment and publication in July 2017 by the Bluetooth SIG of a new standard: the Bluetooth mesh. This meant that the Company's work and endeavors resulted in a measurable effect in the form of the adoption of a global standard and the publication of the complete specifications of the protocol.

Tapping into the technological edge and knowledge gained during the establishment of the standard, the Company is currently developing more advanced tools for monitoring and managing Bluetooth mesh networks. Work is carried out in several directions, including: optimization of software operating in network nodes, development of optimal network configurations and diagnostics tools, roll-out of network node software update mechanisms and automatic network tuning algorithms. The purpose of all these activities is to select the optimal parameters and network settings for specific commercial applications.

In 2018, we spent USD 2,117 thousand on development projects. In turn, in the years ended 31 December 2017 and 2016, we spent USD 2,336 thousand and USD 1,142 thousand on development projects, respectively.

The Silvair team is made up of top Polish specialists brought together by a passion for modern technologies and a willingness to participate in the revolution triggered by the Internet of Things. Engineers hired by Silvair represent various fields (related to hardware and software) and competences, ranging from electronics design, low-level software programming through middleware, mobile applications, web services to cloud solutions. Our engineering teams are supported by a qualified Business Development Team whose job is to cooperate with partners in identifying needs and requirements, providing solutions and collecting and transmitting information on the results of tests performed on Silvair's solutions run in the customer's environment.

Owing to the innovative nature and range of the Company's operations, our employees have the opportunity to engage in direct cooperation with foreign experts and constantly improve their qualifications. Our team's knowledge and experience are spoken highly of during regular meetings of the Bluetooth mesh task force organized by the Bluetooth SIG (known as Interoperability Testing or IOP) in various parts of the world. An elite group of individuals is involved in the work on the standard, and our engineers are at its forefront. They are esteemed internationally for both their professional input and personal involvement, which translate into their being invited to a host of industry conferences. Since 2015, our employees have regularly received awards granted by the Bluetooth SIG to the most innovative and active contributors.

Currently, our engineering teams focus on developing functionalities that have been identified by the Company as critical for the lighting industry. On a much broader scale, we work on developing product features, as opposed to strictly developing the standard, where we contributed certain specific components of the underlying technology. The working environment of our teams is invariably very dynamic: our teams work in short iterations, the scope of which is specified in detail by persons responsible for specific product lines (Product Owners). Our teams work very closely with each other, integrating the results of their work as often as is permitted by the specific stage of the project and the applied technology.

While conducting our development work, we very often adopt subsequent stages of the projects to the experience acquired to date. Very often, we develop new solutions, verify their suitability for product development and test their implementations under various conditions. Designing solutions, participating in

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interoperability (IOP) tests and making presentations for potential customers are activities that help us build up valuable knowledge. We then use this knowledge to create subsequent iterations of our solutions. Of key importance in our business is the ability to deliver prototypes, make changes to them and cooperate with partners.

Patents

In 2018, Silvair sp. z o.o. and Sway sp. z o.o. filed five and two new patent applications with the U.S. Patent Office ("USPTO"), respectively. In 2018, the USPTO awarded the following patents to Silvair sp. z o.o.:

- "Automation System Comprising a Monitoring Device and Methods Therefor".
- "System and method for administering licenses stored in an electronic module, and product unit comprising said module".
- "Motorized system with position calibration".
- "System, method and apparatus for resupplying fast moving consumable goods associated with appliances".
- "Networked lighting system and method".

Transactions with related entities executed on terms other than an arm's length basis

The description of transactions executed between related entities is provided in Note 38 to the Consolidated Financial Statements of the Silvair Group for 2018 and in Note 22 to the Financial Statements of Silvair, Inc. for 2018. All transactions with related entities were executed on an arm's length basis.

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

Marketing activities in 2018

Awards and distinctions received in 2018:

- **Trends in Lighting – Connected Lighting Solution Award**
Award for the best set of tools enabling quick and simple installation of wireless lighting networks granted during the Trends in Lighting event held in Bregenz, Austria.
- **LuxAwards 2018 – Connected Lighting Concept of the Year**
Distinction for a solution enabling wireless lighting control received during the LuxLive 2018 event of the LuxAwards Ceremony.
- **Darc Awards 2018 – Best Architectural Lighting Products – Technology.**
Finalist of the Darc Awards contest held by the ARC magazine in the “best technological product for architectural lighting” category.
- **Bluetooth SIG Member Awards**
Award in the “Outstanding Technical Contributor of the Year” category for Piotr Winiarczyk, an architect of wireless solutions at Silvair, and award for the best “Mesh Working Group” headed by our CTO Szymon Słupik.

In 2018, marketing activities focused on expanding the Silvair brand awareness on the global market and on building an ecosystem of partners applying Silvair technology in their products. In the first quarter of 2018, we announced cooperation with 6 manufacturers of lighting components, including McWong, Murata, Fulham, ERP Power, Danlers and DG Light. We also established partnerships with manufacturers of lighting fixtures, such as Sylvania, Ledeshi and Zumtobel (Europe) as well as with the Demand Lighting, Lumefficient and Ledra Brands of Alphabet Lighting (USA).

Within the framework of our content activities focused on market education and raising awareness of the products and services offered by Silvair, we prepared a re-issue of the e-book “A tale of five protocols” describing selected wireless technologies and of the white paper “Information Centric Networking” on the distribution of information in a mesh network. In collaboration with the industry magazine LuxReview, we organized two webinars, promoting the subject of the mesh network and tools for the creation of wireless lighting networks.

We also promoted our brand’s recognition through the participation of our representatives as experts in key industry events in the United States and Europe. Our representatives (specifically: Rafał Han, Szymon Słupik and Michał Hobot) attended the following events as presenters: Strategies in Light, Lighting Fixture Design Conference, Hannover Messe, Smart Building Show, Wireless Congress, IES, Smart Building Conference, Bluetooth World, World Energy Engineering Congress. The following events were of particular importance: the IES conference, the DLC meetings and the WEEC conference during which our representatives established a number of valuable contacts with persons responsible for the roll-out of new technologies in commercial spaces.

The Bluetooth Special Interest Group played a crucial role in promoting the Silvair solution and the Bluetooth technology. We reach out to a broad group of potential customers by offering our support and involvement in industry events and by promoting technologies through our own channels (social media, Bluetooth blog, sponsored articles).

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Fairs and related events held in Europe and the United States were the primary channel we used in 2018 for making new contacts and collecting opinions about our products. The most significant global event was the Light + Building fair in Frankfurt, where we presented for the first time our partners' components using our technology. The L+B fair is an event attracting over 200,000 visitors from all over the world and more than 1,700 exhibitors. As part of the cooperation with our partners, we ensured the visibility of our brand at other exhibition stands, which additionally strengthened our brand's recognition.

In May 2018, during the LightFair International, we publicly presented Silvair Commissioning – a product forming part of the platform responsible for the construction of lighting networks. Subsequent events were aimed at increasing awareness of the network commissioning tools provided by Silvair. During the Trends in Lighting event, we received an award in the “Connected Lighting Solution” category. Then, in November, during the LuxLive event, we received a distinction for the same set of tools in the “Connected Lighting Concept of the Year” category. The last event of the year on the American continent was LightShow West, focused on companies from the U.S. west coast, which is the market predominantly targeted by the Company.

One of our key business initiatives was the roll-out of a lighting system in the Murata office building in Dallas, Texas. Our marketing team described this fact in the document entitled “**Retrofitting Billingsley Company office spaces in Dallas, TX**”. The showroom created in this building is a place where Silvair's Partner meets with its customers and demonstrates to them that the technology is ready for immediate commercialization.

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External environment

Macroeconomic environment

Global macroeconomic environment

As was demonstrated in the second edition of the report published by the consulting firm McKinsey & Company in August 2012, entitled "Lighting the way: Perspectives on the global lighting market", there is a strong relationship between general economic conditions and the performance of the whole lighting industry, in particular in the lighting control systems market, due to its strong links to construction project activities, which are closely correlated with the global growth rate.

From the perspective of potential sales markets for our products, of key importance are developed and newly industrialized countries with large economies of global significance that are characterized by a high level of demand for products utilizing modern technologies and that, due to their extensive infrastructure, have significant potential for cost optimization, in particular in respect of energy consumption. Outside the European Union, such markets include the United States, China, Japan, India, Brazil and Canada.

General economic situation in Poland and the EU

Owing to the location of our development activities in Poland and the fact that almost all our operational assets are located in Poland, the macroeconomic situation prevailing in Poland and the EU, of which Poland is a member, exerts a particularly significant impact on our business and we expect that in the future it will continue to affect our financial standing and performance as well as the development of the Group and the Company.

According to the preliminary estimates of Poland's Central Statistical Office (GUS), in 2018 the Polish economy grew 5.1% y/y, with the last quarter of the year slightly weaker than the previous ones (up 4.9% y/y), and business sentiment indicators suggested an impending slowdown. The global economy grew at a similar rate as in 2017, but the forecasts for subsequent periods deteriorated, partly because of an upsurge in protectionism in global trade. Certain emerging economies experienced serious problems. The euro zone grew at a slightly slower pace, which had an unfavorable impact on demand for products exported from Poland. The main driver of economic growth in 2018 was consumption demand generated by households, which increased 4.5% y/y, slightly less than a year earlier (4.8%). Nevertheless, the rate of growth in individual consumption was still high, supported by the excellent situation on the domestic labor market: historically low unemployment rate, growing total employment, driven partly by an influx of economic immigrants, and the fastest rate of growth in wages for 10 years. Investments rebounded and in 2018 increased by an average of 7.3% y/y, albeit this improvement in investment activity was recorded in principle only in the public sector, especially as generated by local governments, while private investments remained stagnant. The primary challenge for Polish companies in 2018 was the difficulty in finding qualified staff, which translated into a sharp increase in wages and a search for employees from other countries. Despite these challenges, industrial production increased approx. 6% y/y. A decline in gross foreign debt and an improvement in net investment position compared to GDP were recorded.

On 24 September 2018, the global index agency FTSE Russell reclassified Poland from Emerging Markets to Developed Markets. As a result, Poland entered the group of top 25 developed global markets, having joined such countries as the United States, the United Kingdom, Germany, France, Japan and Australia. At the same time, Poland is still classified by the largest global index agency MSCI as a developing market. Due to these two classifications, companies listed on the Warsaw Stock Exchange are simultaneously on the radar of investors looking for opportunities in both emerging and developed markets.

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The country's robust economic performance prompted the rating agency S&P to upgrade Poland's rating from BBB+ to A-. The other two main rating agencies revised their expectations of economic growth in Poland upward.

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Description of the market and position of the Silvair Group

Description of the global market for smart lighting control systems

The Company's market of smart lighting systems is a subset of the market for Internet of Things (IoT) solutions, a concept in which system elements gather, process and exchange data through over the web. According to the report entitled "Worldwide Semiannual Internet of Things Spending Guide" prepared by IDC analysts, the global Internet of Things market in 2020 will be already worth USD 1.5 trillion. The smart lighting market itself is as the initial phase of development. The first commercial solutions in this respect, based on the Internet of Things idea, appeared around 5 years ago. Hence Silvair belongs to global pioneers of such solutions and thanks to its contribution to the development of the Bluetooth mesh standard, it has a significant competitive advantage. According to the report entitled Smart Lighting Market - Global Forecast to 2022 (MarketsandMarkets), the smart lighting market will reach the level of USD 15.6 bn in 2022 (from USD 3 bn in 2016) and the number of delivered devices will increase from 26.8 million in 2016 to 1.27 billion in 2022. The authors of the report entitled Smart Wireless Lighting (On World, Inc.) expect that the smart lighting market in the wireless solutions market will reach USD 4.76 billion in 2019, and the number of delivered wireless devices will reach 160 million. According to forecasts contained in the report on the Internet of Everything Market by ABI Research, in 2021 the total number of all devices connected to the Internet may reach 48 billion. It is anticipated that devices fitted with the Bluetooth standard will account for 30% of the total number. According to the report entitled "Worldwide Semiannual Internet of Things Spending Guide IDC", the value of the IoT market in 2020 may be as much as USD 1.5 trillion. According to Gartner's analysts (as published in "Top Strategic Predictions for 2018 and Beyond, 2017"), as early as in 2020, 95% of all new devices will operate in the Internet of Things.

The smart lighting market is relatively new and technologically advanced, while development forecasts for the future of the industry are subject to a high degree of complexity and uncertainty. As a result, any predictions about the value of profits or revenue to be generated by the industry in the coming years are burdened with a high risk of error. However, a noticeable tendency has been observed that predictions published by research companies improve in subsequent reports as technology develops and the market environment evolves.

The smart lighting market is divided into the following three main sectors, taking into account the target groups and the intended use of products:

- Municipal, Outdoor & Others, which includes lighting of streets and large areas intended for public use (currently accounting for approx. 20% of the industry's revenues),
- Commercial Buildings, which includes lighting for office and retail space (currently accounting for approx. 30% of the industry's revenues),
- Residential, which is lighting intended for domestic use by retail buyers (currently accounting for approx. 50% of the industry's revenues).

It is worth noting that depending on the geographical area and the characteristics of the relevant economy, the shares of the main sectors in the industry's revenues may differ considerably from country to country, although no detailed studies are available describing the extent of these differences in terms of the current size and growth potential of each sector. However, it should be mentioned that all sectors have been recording very positive performance and have been described by analysts as promising.

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From the Company's perspective, the Commercial Buildings sector, which is the target group of customers using the Silvair system and is of key importance for the Company, has been growing very rapidly in recent years. Also, from the demand perspective, this sector demonstrates a relatively high growth potential and market stability, because businesses generally have a greater propensity to implement solutions that reduce their cost base than retail customers, and, on top of that, are more likely to have sufficient funds to execute capital expenditure projects.

According to the analyses and projections presented in the report entitled "Global Lighting Control System Market 2015-2019", published in January 2015 by ReportsnReports.com, the global smart lighting market in 2014-2019 will grow at an average annual rate of approx. 12.5% as a result of increasing demand generated by current industrial and business customers and the acquisition of new end users. In September 2016, a report by the same authors (ReportsnReports.com) was published, entitled "Smart Lighting Market by Product Type (Smart Bulbs, Fixtures, and Lighting Controls), Light Source (Fluorescent, LED, HID), Communication Technology (Wired, and Wireless), Software & Service, Application, and Geography - Global Forecast to 2022", which estimated the value of the market at approx. USD 4.62 billion. According to the forecast included in the report, the market for smart lighting control systems in 2016-2022 is expected to grow an average annual rate of approx. 27.1%, which would allow the global industry to achieve total revenues of USD 19.47 billion in 2022. Indications for such optimistic predictions are based on the following factors: growing demand for energy-efficient lighting systems generated by consumers, growing demand for smart solutions in street lighting systems and development of Internet of Things technologies.

The chart below presents the predicted value of the global market for smart control systems and the forecast of global LED production in each year indicated.



Source: Lighting Market Analysis and Forecast 2016 (Strategies Unlimited) / Market Data Intelligent Lighting Controls (Navigant Research)

The second edition of the report entitled "Smart Wireless Lighting" also presents estimates of the share of individual components of smart lighting systems in the industry's global revenues, according to which bulbs and lamps followed by switches and dimmers play a key role, accounting for almost 70% of the sector's revenues. Controllers, sensors and bridges account for the remaining share of the market.

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According to an analysis published by ON World, revenues of the smart wireless lighting equipment industry in 2015-2019 will increase from USD 1.399 billion to USD 4.764 billion, which would mean an average annual rate of growth of 35.84%. In 2015, the size of the market in the EU, Switzerland and Norway was estimated at a total of USD 519 million, with the industry's forecasted revenues in 2019 at USD 1.688 billion, which would mean an average annual rate of growth of approx. 40.44%.

Forecasts of the average annual rate of growth of the smart lighting market published in the last 3 years have ranged from 12% to 30%, depending on the author and the year of publication. If these forecasts agree with reality, it would mean that the industry is characterized by one of the fastest growth rates among all energy-related industries.

Despite the rapid growth of the Internet of Things and the increasing application of wireless technologies in consumer products, we are of the opinion that in the near future revenues generated in this market will account for only a fraction of revenues generated in professional applications.

The revolution that has been taking place in recent years in the lighting industry, driven by the trend of replacing traditional light sources with energy-saving LEDs, generates, on one hand, enormous business benefits, and, on the other hand, prompts significant changes within the industry itself. Manufacturers and suppliers who wish to remain competitive in this market are forced to look for distinguishing features that increase the quality, functionality and attractiveness of their products. Along with the development of new light emission technologies and the broadening of the offering of new lighting fixtures, smart lighting control is becoming increasingly important.

Energy service companies (ESCOs) are among the key market participants and at the same time serve as an important catalyst for the development of energy-saving lighting control systems.

According to the report "U.S. Energy Service Company (ESCO) Industry: Recent Market Trends" published by the Lawrence Berkeley National Laboratory in 2016, in the United States alone, in 2014, the ESCO industry's revenue reached USD 5.3 billion. More than 85% of revenues generated by the ESCO industry in the USA is generated by the public and institutional sectors. Performance-based contracts in 2014 accounted for 74% of the industry's revenue, and the lion's share of the industry's revenue came from new customers. More than half of all ESCOs took advantage of tax breaks at a local, state or federal level. In 2011-2014, each ESCO introduced at least one type of "non-energy benefits" (NEBs). The share of non-energy retrofits in projects executed by ESCOs has been growing rapidly in recent years. According to the "ESCO Market Overview" report by Navigant Research, the global ESCO market is expected to grow from USD 15.0 billion in 2017 to USD 30.8 billion in 2026.

Competitive environment

The pillar of growth for the smart lighting industry is provided by global multinational companies with an established market position (such as GE, OSRAM, LG, Samsung and Philips), which offer all components necessary for the development and construction of smart lighting systems, but also carry out intense development work themselves in this area. It should be noted, however, that in contrast to the traditional manufacturing of lighting products, due to low barriers to entry, the smart lighting sector creates attractive opportunities for the establishment of new start-ups and the entry of existing companies operating in other industries, such as IT. This is confirmed by a large number of manufacturers of smart lighting systems. According to all available analyses, there are at least 100 entities across the world involved in the development or manufacture of smart lighting products, but usually the business model adopted by smaller

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manufacturers is based on extensive cooperation with other companies combined with a high degree of specialization of their own business.

According to the ON World report, major global manufacturers of smart lighting system components include GE Lighting, OSRAM, Philips Lighting, Samsung Electronics, Sharp Corporation, Zumtobel and Fagerhult. In turn, the world's most important players in the commercial buildings sector include Acuity Brands (Distech Controls, Atrius, Adura Technologies), Daintree (obecnie grupa GE), Digital Lumens (obecnie grupa Osram), Enlighted, Dynalite (Philips), Lutron, Legrand and Cree.

Also in Poland, several enterprises have joined in recent years the development of business related to the manufacture and operation of smart lighting systems, of which the major ones include Lena Lighting S.A. (LED lamps, control systems), ES-System (LED fittings, control systems), APANET Green System Sp. z o.o. (sensors, controllers, ballasts, power supply units), GLOBUS Lighting Sp. z o.o. (LED fittings), FirmaSmart Sp. z o.o. (LED lamps and sensors), AutoID Polska S.A. (LE bulbs), LEDIKO Sp. z o.o. (LED modules and LED fittings).

We believe that the Company's competitive edge over other domestic manufacturers is our focus on global expansion and the precise definition we have developed of our target customer base combined with the optimal match of our end product with the user's requirements.

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Risk related to our business

The Silvair Group is exposed to a number of risks that may exert an unfavorable effect on its operations, financial and operating standing, brands and reputation. On a regular basis, the Board of Directors reviews the market environment and risk factors to which the Silvair Group is exposed. New projects and contemplated major transactions are subject to thorough scrutiny. If any regulatory amendments are enacted, members of the Group adjust their business accordingly. The following are the primary risks that, if materialized, may exert a significant impact on the Group's business. Besides the factors mentioned in this section, the Group is also exposed to the financial risks described in Note 33.2 of the Silvair Group's Consolidated Financial Statements for 2018.

Risk associated with strategic objectives and growth management

The pursuit of the strategy adopted by the Group and the Company depends on the success of its research and development work and correct interpretation of its results as well as on the effective commercialization of the developed products. The assumptions and conditions of product sales currently under development do not fully guarantee that the decisions taken will allow the strategic objectives to be implemented within the planned scope.

Risk associated with the early stage of the Company's development, absence of meaningful history of operations and of significant revenue

Currently, the Company is at the stage of commercialization of its products but has not yet been involved in significant sales operations. The pace of the Company's development depends on the success and scale of its product sales.

Risk associated with product work and the uptake of the Company's products by the market

Although our first products have already entered the market, we cannot rule out that the current form of our products will require additional modifications, including unpredicted alterations, and the work will not be completed by the time needed to ensure quick commercialization.

Risk associated with the dissemination of the Bluetooth mesh technology

Commercial success of the Company's products and services depends on the pace and scale of dissemination and commercial implementation of the Bluetooth mesh standard. It cannot be ruled out that Bluetooth mesh will not be a market success.

Risk associated with loss of key members of the management and the team, and with difficulties in attracting employees and collaborators.

The quality of the products and services developed by the Company and its position in the smart lighting solutions market depends on the experience and skills of our employees and collaborators. Losing key personnel may have an adverse impact on the Company's operations.

Risk of product concentration

Absence of significantly diversified potential sources of revenues puts the Company in high risk of concentration linked to its orientation to smart lighting industry and development of its product and - in the long run - also other planned services based exclusively on the Bluetooth mesh technology.

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Risk associated with the work of development teams

Unplanned discontinuation of cooperation by an entire development team, or a part thereof, may have a significant adverse effect on the development of a solution adopted by the Company, which may create delays or require changes to the Group's development plans.

Risk of failure to attract qualified employees

The Company's operation requires collaboration with new qualified employees, which calls for additional financial expenditure. There is also a risk that the Company will fail to attract employees with adequate experience and professional knowledge or that newly-hired employees will not meet the Company's expectations.

Risk associated with significant increase in labor costs

The launch of the Company's product sales leads to a significant change in its employment structure. New highly qualified specialists need to join our project teams to be responsible for the development of our products across the world. These will be highly-paid individuals, which will have a significant impact on the growth of operating costs.

Risk of growing costs of operations coupled with the absence of sufficient growth in revenues

In view of the nature and the degree of the Company's development, there is a risk of a significant increase in operating costs needed to implement our strategy, which may be accompanied by a lack of sufficient growth in the Company's revenues to cover its expenses.

Risk associated with research and development work on new products and technological solutions

Our market, based extensively on innovative solutions, demands high capital expenditure on research and development. There is a risk that those activities will not always lead to the creation of a new product, service or solution.

Risk associated with development of competition

It is hard to foresee how quickly the Company's competitors will introduce similar or alternative systems. Therefore it cannot be ruled out that the Company will not be able to use its competitive advantage fully or will not be able to use it at all.

Risk associated with intellectual property protection

It is uncertain that all the actions taken in the area of intellectual property protection will be successful. There is also a risk that competitors will launch into the market devices which use the Group's copyright or protected technical solutions.

Risk associated with disclosure of company secrets and other confidential trade information

The achievement of the Company's plans hinges to a high degree on its unique, partly still unpatented technologies. Their protection should be ensured by confidentiality agreements. However, it is uncertain that those agreements will be respected, which may lead to, without limitation, the data being taken over by competitors.

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Risk of loss, demand of early repayment or return of various forms of state aid received by the Company

Pursuant to the relevant agreements, the Company may be called to return the state aid it has received. Events cannot be ruled out which may result in an obligation for the Group's companies to return received grants.

Risk associated with breakdowns or break-ins into IT systems

Breakdowns of IT systems or infrastructure may restrict or stop proper operations of the Group, or its ability to offer products and services, temporarily or permanently. IT systems may be susceptible to physical or electronic break-ins and other threats, which may result in, without limitation, the Company's losing access to the information stored in its IT systems or access to such information having been obtained by unauthorized third persons. Such actions may also damage the Company's reputation or lead to substantial expenses.

Risk associated with absence of insurance protection

On 12 December 2018, Silvair sp. z o.o. executed a third party liability insurance contract with AVIVA Towarzystwo Ubezpieczeniowe S.A. The insurance covers third party liability in respect of personal and property damage caused in connection with the possession and use of assets as well as the business run by Silvair sp. z o.o., as specified in the insurance contract, including damage caused by a product or service (including that caused by a rendered and delivered service) and presence of third parties on the premises in connection with the performance of insured professional activities, and in respect of damage resulting from shortcomings in the performance of professional activities in connection with the provision of services specified in the insurance contract. For its part, Silvair, Inc. is in the process of negotiating and selecting the proper option of third party liability insurance for itself. This means that at the moment Silvair, Inc. does not have insurance cover that would protect it against the consequences of any damage incurred by it or claims brought against it.

Risk of damage to the Company's image, claims arising from liability under warranties, guarantees and indemnity claims

Negative information about the Company's products may have an adverse effect on the development of its operations, by reducing the capacity to attract new customers, thus lowering the Company's revenues. In view of the innovative nature of the solutions offered by the Group, it cannot be ruled out that problems and defects will emerge that were not been discovered and eliminated in the course of research and development work.

Risk associated with court and administrative proceedings

The Company's operation gives rise to potential disputes and claims, related to, without limitation, possible client claims regarding the products sold. On the other hand, members of the Group conclude trade agreements, that may also give rise to disputes and claims. Such disputes or claims may have an adverse effect on the Company's reputation, deflect the management's and the team's attention away from its core activities, and expose the Company to significant legal costs of court proceedings.

Risk associated with absence of adequate internal control procedures and systems

In view of the development of the Company's operation, as well as a result of other factors, there may be a need to implement and apply proper procedures and systems of internal control, in order to meet new
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operational requirements. Misalignment of the internal control procedures and system with the scale of operations, at present and in the future, may lead to a disclosure of company secrets, including innovative solutions, and expose the Company to the risk of claims lodged by its business partners.

Risk associated with the economic and political situation

The efficiency of the Company's business is - and will even more so be in the future - dependent on, without limitation, the rate of economic growth, consumption level, fiscal and monetary policy, inflation and many other macroeconomic parameters having an indirect impact on the commercial real estate sector, considered by the Company as key for the development of its operations in the smart lighting sector, in the countries where the Company distributes its products or provides its services.

Foreign exchange risk

Currency risk arises from the fact that the majority of the Company's ongoing operating expenses are incurred in PLN, while a major or significant part of the expected revenue is or will be denominated in foreign currencies. We expect that the foreign exchange rate fluctuations will have an impact on, without limitation, changes in the value of our revenues and receivables after conversion to PLN.

Risk of legislative changes having an impact on the Company's market

Changes in legal regulations having a direct impact on the modern technologies market may have a significant adverse effect on the Company's operations, for example to the extent they result in higher operating costs, administrative restrictions or new requirements to obtain permits. The volatility of legal system and regulatory environment increases the risk of additional and unexpected expenses, including the costs of aligning the operations with the changing legal environment.

Risk associated with patent trolls

The innovative technologies market is targeted by the so-called patent trolls, i.e. entities purchasing patents exclusively for the purpose of pursuing claims for the patents alleged or actual violations. There is a risk of such claims being lodged against the Issuer, linked to an alleged violation of a patent by the members of the Group.

Risk associated with limited capital and future capital needs

It cannot be ruled out that in the future the Issuer will not have access to new financing in the required amount, on acceptable terms or not at all. This may be due to the Company's situation, including its ability to commercialize its products and services effectively, to compete, as well as by other factors beyond the Company's control.

Risk associated with lost liquidity

The early stage of the Company's development exposes us to a risk of not being able to pay our liabilities at maturity, in particular due to limited access to financing, failure to generate revenue or having generated revenue which is lower than planned or higher costs due to the development of our operations or other factors. The Group undertakes a number of measures to secure financing for its current and future capital needs. If those measures prove unsuccessful, an insolvency or liquidation of the Company cannot be ruled out.

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

Risk associated with technological change in the industry and development of new products.

Success of the Issuer's business is hinged primarily on its ability to apply state-of-the-art technological solutions in its products and services. A competitive market position cannot be maintained without development work and investment in new products. To achieve a permanently strong market position, the Company will need to be highly active and observe new business and technological trends continuously.

Risk of unexpected trends

There is a risk of new, unexpected trends emerging, which the existing Group's products may fail to address. New products offered by the Group may fail to win market recognition due to a sudden change in trends or emergence of new or unidentified needs of product and services end users.

Risk associated with difficult enforcement of Directors' and Officers' liability towards the Company

Enforcement of US court judgments based on US third party liability laws, including the federal securities law, from the Company's assets may prove impossible, given that, without limitation, almost all operating assets of the Issuer are located in Poland.

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

Factors that may affect the Silvair Group's business in 2019

The Issuer's Board of Directors believes financial performance of the Group and the Company in the coming periods will be affected by the following external and internal factors:

Macroeconomic trends in global economy, including Poland's economic situation

Our operations and financial situation depend on the macroeconomic environment of the countries where we conduct our development work (in particular Poland). In the long-term, it will depend on the macroeconomic situation in the countries where we will distribute our products and provide services. There is a strong relationship between general economic conditions and the results in the lighting industry, in particular in the lighting control systems market, due to its strong links to investment activities, which are closely correlated with the global growth rate.

Increase in the scale of our business, including:

- rate of adoption of the Bluetooth mesh standard by the market and effectiveness in acquiring new business
- systematic development work supporting the commercialization of new products and increase of the competitive advantage.

Our Company is at an early stage of development, therefore our organizational, technical and logistical resources are significantly limited. Consequently, we are aware that the launch of Silvair Firmware sales and Silvair Platform services will require the Group to adapt to an increased scale of operations. In particular, we will have to promptly develop a sustainable and effective corporate structure, with representatives and sales, promotion and service outlets in a number of locations across the world. We also expect significant changes in the employment structure of the Group. The project teams - now constituting the core of the Group - will have to be joined by employees of marketing, sales, after-sale support and servicing units. A majority of those employees will be software programmers and IT specialists, as well as highly qualified experts who will be responsible for the development of our products across the whole world. It should therefore be expected that the Group's transition from the development stage to the product commercialization stage will call for substantial expenditures on organization, technology and logistics. Those activities will undoubtedly have a significant impact on an increase of our operating costs, and - as a result - on our financial standing and financial result.

Foreign exchange rates

The Group's Consolidated Financial Statements and Standalone Financial Statements are presented in the US dollar (USD), which is the functional currency of the Company and the presentation currency of the Group. A functional currency is set for each subsidiary and then it is used to measure the subsidiary's assets and liabilities. The Group uses the direct consolidation method, which entails translation of figures in the financial statements of the subsidiaries directly into the Company's functional currency. The Group has chosen a method of recognizing translation gains and losses that is consistent with this method. We should note however that since our development operations are located in Poland, the majority of current operational costs is incurred in PLN; on the other hand, once we launch our product sales, a majority or significant part of our expected revenue will be denominated in other currencies, i.e. - according to our assumptions - primarily in USD and EUR. We therefore expect that in the future foreign currency

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fluctuations may have an important impact on our competitive position and operating results. In view of our future plans to develop sales in foreign markets, an increase in foreign currency risk should be expected.

Capital needs

Given the nature and the development level of our operations, as well as absence of significant revenues, our external capital requirements have been and may remain significant. Furthermore, to grow the scale of our operations and increase growth rate, we may be forced to take out loans and borrowings or issue new securities, in the form of equities or debt securities. All those measures may have a significant impact on our financial situation and operational results, in particular as a result of higher operating costs due to debt repayments.

Besides the factors described above and other information given in this document, we do not identify any trends, uncertainties, claims, obligations or events that would be highly likely to have a material impact on the development prospects of the Group and the Company within the next quarter.

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

Financial standing of the Silvair Group and Silvair, Inc.

Policies applicable to the preparation of the annual financial statements of the Silvair Group and Silvair, Inc.

The consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc. have been prepared while applying an accounting policy consistent with International Financial Reporting Standards (IFRS) endorsed by the European Union (EU) and in effect as at 31 December 2018.

The consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc. have been prepared on a historical cost basis.

The consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc. present in a reliable manner the financial and economic standing, the operating results and cash flows of the Silvair Group and Silvair, Inc. as at 31 December 2018 or for the year ended 31 December 2018, as the case may be. The consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc. have been prepared based on a going concern assumption for the Silvair Group and Silvair, Inc. in the foreseeable future. The Parent Company's Board of Directors believes that there are no circumstances indicating a threat to the Group's continuing its operations 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 members of the Group have already generated initial revenue flows (which fact will be disclosed in the report for Q1 2019), and the Silvair Group'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 Group. The scenarios of possible funding deals for the Group'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.

Accordingly, the Group 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). Taking into account the current market valuation of the Silvair, Inc. stock listed on the WSE, making an additional assumption that

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all shares available under the authorized capital are placed at the current market price, the Group may count on raising approx. USD 5-6 million in new equity, subject to market conditions and the Group'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. and the Group as at the date of its execution, which may fluctuate along with the development of commercialization of the Group'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 Group's experience in carrying out a funding transaction based on the same instrument in previous years, including during the preparations for the IPO project.

References to the accounting policy applied to prepare the consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc. are presented in the description of the adopted principles (accounting policy) included in the explanatory notes to the consolidated financial statements of the Silvair Group and the standalone financial statements of Silvair, Inc.

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

Presentation of the basic economic and financial figures of the Silvair Group

Consolidated statement of profit or loss of the Group

| Consolidated profit and loss account | 1 January 2018 – 31 December 2018 | 1 January 2017 – 31 December 2017 |
|---|--------------------------------------|--------------------------------------|
| A. Revenue | 21 | 37 |
| B. Cost of sales | - | 10 |
| C. Gross sales result | 21 | 27 |
| I. Selling and distribution expenses | 591 | 498 |
| II. General and administrative expenses | 2,558 | 1,394 |
| D. Net sales result | -3,128 | -1,865 |
| I. Other operating income | 71 | 25 |
| II. Other operating expenses | 46 | 224 |
| E. Operating result | -3,103 | -2,064 |
| I. Financial income | 16 | 5 |
| II. Financial costs | 117 | 152 |
| F. Result before tax | -3,204 | -2,210 |
| I. Income tax | -425 | -529 |
| current part | 14 | 4 |
| deferred part | -439 | 525 |
| G. Profit/(loss) for the period | -2,779 | -2,739 |
| profit/(loss) attributable to: | - | - |
| shareholders of the parent company | -2,759 | -2,739 |
| non-controlling interest | -20 | - |

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

In 2018, the Group conducted intense work on the development and promotion of new products, the establishment of sales markets and the acquisition of buyers. This meant that general and administrative expenses USD 2,558 thousand and selling expenses of USD 591 thousand were incurred. General and administrative expenses were up by USD 1,164 thousand compared to 2017. This was due chiefly to the increase in wages in the Polish labor market, the valuation of share-based convertible options granted to employees and the increase in the cost of external services. Selling expenses were at a level comparable to that of 2017. Financial income of USD 16 thousand was generated predominantly by interest on free funds in bank deposits. Financial costs of USD 117 thousand are related mainly to interest on a loan from the Polish Agency for Enterprise Development (PARP) and exchange rate differences.

Financial results by the Group's operating segments

| Segment type | | | | | | Data for 2018 |
|--|---------------------|-----------------------|---------|-------|----------------|---------------|
| | Silvair Platform | Silvair Mesh Stack | Wi-Home | Proxi | Other activity | Total |
| Revenues and expenses | | | | | | |
| Sales to external customers | - | - | - | 2 | 19 | 21 |
| Inter-segment sales | - | - | - | - | - | - |
| Income and expenses (operating and other operating) | - | - | - | -2 | -3,122 | -3,124 |
| EBIT | | | | | | -3,103 |
| Net financial income (costs) | - | - | - | - | -101 | -101 |
| Share in profits of associates | - | - | - | - | - | - |
| Profit before tax | | | | | | -3,204 |
| Income tax (current and deferred) | - | - | - | - | -425 | -425 |
| Net profit for the reporting period | | | | | | -2,779 |
| Assets | | | | | | |
| Costs of development work | 2,486 | 4,030 | 444 | 177 | 1,701 | 8,838 |
| Receivables | - | 10 | - | - | 150 | 160 |
| Unallocated assets | 0 | 0 | 0 | 0 | 4,079 | 4,079 |

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

| | | | | | | | |
|--------------------------------|----|-----|----|----|-----|--|---------------|
| Total assets | | | | | | | 13,077 |
| Liabilities | | | | | | | |
| Financial liabilities | - | - | - | - | 271 | | 271 |
| Unallocated liabilities | | | | | | | 1,498 |
| Total liabilities | | | | | | | 1,769 |
| Other information | 0 | 0 | 0 | 0 | 0 | | 0 |
| Depreciation and amortization | 16 | 272 | 63 | 25 | 307 | | 683 |

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

| Segment type | | | | | | Data for 2017 |
|--|---------------------|-----------------------|---------|-------|-------------------|---------------|
| | Silvair Platform | Silvair Mesh Stack | Wi-Home | Proxi | Other activity | Total |
| Revenues and expenses | | | | | | |
| Sales to external customers | - | 26 | 7 | 4 | 37 | 37 |
| Inter-segment sales | - | - | - | - | - | - |
| Income and expenses (operating and other operating) | - | - | -5 | -4 | -2,091 | -2,100 |
| EBIT | | | | | | -2,064 |
| Net financial income (costs) | - | - | - | - | -146 | -146 |
| Share in profits of associates | - | - | - | - | - | - |
| Profit before tax | | | | | | -2,209 |
| Income tax (current and deferred) | - | - | - | - | -529 | -529 |
| Net profit for the reporting period | | | | | | -2,739 |
| Assets | | | | | | |
| Costs of development work | 1,460 | 3,796 | 219 | 584 | 1,865 | 7,924 |
| Receivables | - | 12 | - | - | 116 | 129 |
| Unallocated assets | - | - | - | - | 1,357 | 1,357 |
| Total assets | | | | | | 9,410 |
| Liabilities | | | | | | |
| Financial liabilities | - | - | - | - | 447 | 447 |

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

| | | | | | | |
|-------------------------------|---|-----|----|----|-------|--------------|
| Unallocated liabilities | - | - | - | - | 1,014 | 1,014 |
| Total liabilities | | | | | | 1,461 |
| Other information | - | - | - | - | - | - |
| Depreciation and amortization | - | 117 | 23 | 63 | 250 | 453 |

Consolidated statement of financial position of the Group

| | 31 December 2018 | 31 December 2017 |
|------------------------------------|------------------|------------------|
| A. Non-current assets | 9,540 | 8,179 |
| I. Costs of development work | 8,838 | 7,924 |
| II. Other intangible assets | 18 | - |
| III. Property, plant and equipment | 57 | 62 |
| IV. Financial assets | 7 | 8 |
| V. Deferred tax assets | 620 | 185 |
| B. Current assets | 3,537 | 1,231 |
| I. Inventory | 13 | 50 |
| Trade receivables | 20 | 14 |
| III. Other receivables | 140 | 115 |
| IV. Prepayments and accruals | 31 | 34 |
| V. Financial assets | - | - |
| VI. Cash and cash equivalents | 3,333 | 1,018 |
| Total assets | 13,077 | 9,410 |

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

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| A. Equity | 10,901 | 7,949 |
| I. Share capital | 1,138 | 973 |
| II. Capital from revaluation of options | 155 | 23 |
| III. Other capital | 21,147 | 15,286 |
| IV. Capital from foreign exchange differences from translation of foreign operations | 1,034 | 1,498 |
| V. Retained earnings | -9,814 | -7,092 |
| VI. Financial result of the current period | -2,759 | -2,739 |
| B. Minority interest | 407 | - |
| C. Non-current liabilities | 165 | 334 |
| I. Deferred tax liabilities | 28 | 33 |
| II. Other non-current liabilities | 137 | 301 |
| D. Current liabilities | 1,604 | 1,127 |
| I. Trade liabilities | 172 | 198 |
| II. Other current liabilities | 318 | 313 |
| III. Other short-term provisions | 52 | - |
| IV. Prepayments and accruals | 1,062 | 616 |
| Equity and liabilities | 13,077 | 9,410 |

As at 31 December 2018, the Group's assets stood at USD 13,077 thousand. This increase compared to the previous year by USD 3,667 thousand resulted from an increase in activated costs of development work by USD 1,047 thousand (expenditures of USD 2,117 thousand, depreciation of USD 617 thousand, difference from balance sheet valuation USD -587 thousand), an increase in cash by USD 2,315 thousand and an increase in deferred tax asset by USD 435 thousand. The increase in assets was funded chiefly with cash raised during the IPO process and with grants from the National Center for Research and Development (NCBiR).

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

Consolidated cash flows of the Group

| | 1 January 2018 – 31 December 2018 | 1 January 2017 – 31 December 2017 |
|--|--------------------------------------|--------------------------------------|
| Profit (loss) before tax | -3,204 | -2,210 |
| Adjustments for: | 556 | 1,228 |
| 1. Depreciation and amortization | 683 | 453 |
| 2. Foreign exchange gains (losses) | -18 | 123 |
| 3. Interest and profit sharing (dividends) | 131 | 7 |
| 4. Movement in provisions | 52 | - |
| 5. Movement in inventory | 38 | -5 |
| 6. Movement in receivables | -31 | -26 |
| 7. Movement in current liabilities, except for loans and borrowings | -21 | 206 |
| 8. Tax paid | 14 | 4 |
| 9. Movement in prepayments and accruals | 449 | 588 |
| 10. Other adjustments resulting from operating activity | -741 | -122 |
| Net cash from operating activities | -2,648 | -982 |
| Proceeds | - | 1,437 |
| 1. Disposal of intangible assets and property, plant and equipment | - | - |
| 2. From financial assets, including: | - | 1,437 |
| in related entities | - | - |
| in other entities | - | 1,437 |
| Expenditures | 2,204 | 2,387 |
| 1. Purchase of intangible assets and property, plant and equipment | 87 | 51 |

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

| | | |
|--|---------------|---------------|
| 2. Expenditures incurred for development work | 2,117 | 2,336 |
| 3. For financial assets, including: | - | - |
| in other entities | - | - |
| Net cash from investing activities | -2,204 | -950 |
| Proceeds | 7,331 | 243 |
| 1. Net proceeds from issuing shares and additional capital contributions | 7,315 | 217 |
| 2. Loans and borrowings drawn | - | - |
| 3. Interest | 16 | 26 |
| Expenditures | 164 | 165 |
| 1. Repayment of loans and borrowings | 140 | 133 |
| 2. Interest | 24 | 31 |
| Net cash from financing activities | 7,167 | 78 |
| Net cash flows | 2,315 | -1,854 |
| Movement in cash | 2,315 | -1,854 |
| - movement in cash on account of foreign exchange differences | - | - |
| Cash at the beginning of the period | 1,018 | 2,872 |
| Cash and cash equivalents at the end of the period | 3,333 | 1,018 |

The Group recorded an increase in cash by USD 2,315 thousand compared to the previous year. As part of its financial activities, during the year the Company raised cash from the issue of shares and contributions to capital in the amount of USD 7,315 thousand and repaid a loan with interest of USD 164 thousand. The obtained funds were used to cover expenditures on the purchase of fixed assets and development works of USD 2,204 thousand and to fund operating activities, which generated a negative cash flow of USD 2,648 thousand.

Forecasts of the Silvair Group's results

The Silvair Group did not publish any forecasts of its results for 2018.

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

Presentation of the basic economic and financial figures of Silvair, Inc.

Statement of profit or loss of Silvair, Inc.

| Standalone profit and loss account | 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 sales result | -463 | -302 |
| I. Other operating income | - | - |
| II. Other operating expenses | - | 1 |
| E. Operating result | -463 | -303 |
| I. Financial income | 204 | - |
| II. Financial costs | 69 | 34 |
| F. Result before tax | -328 | -337 |
| I. Income tax | 14 | 4 |
| current part | 14 | 4 |
| deferred part | - | - |
| G. Profit/(loss) for the period | -342 | -341 |

Operating expenses of Silvair, Inc. consist predominantly of payroll expenses and costs of external services. Silvair, Inc. recorded financial income of USD 204 thousand, which consisted chiefly of interest on loans granted to related entities. Silvair, Inc. closed the year with a loss of USD 342 thousand.

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

Financial standing of Silvair, Inc.

| | 31 December 2018 | 31 December 2017 |
|----------------------------------|------------------|------------------|
| A. Non-current assets | 15,835 | 11,979 |
| I. Property, plant and equipment | - | 5 |
| II. Financial assets | 15,835 | 11,974 |
| B. Current assets | 2,465 | 385 |
| I. Cash and cash equivalents | 2,465 | 385 |
| Total assets | 18,300 | 12,364 |

| | 31 December 2018 | 31 December 2017 |
|---|------------------|------------------|
| A. Equity | 18,245 | 12,330 |
| I. Share capital | 1,138 | 973 |
| II. Capital from revaluation of options | 155 | 23 |
| III. Other capital | 20,910 | 15,051 |
| VI. Retained earnings | -3,616 | -3,376 |
| V. Financial result of the current period | -342 | -341 |
| B. Non-current liabilities | - | 34 |
| C. Current liabilities | 55 | - |
| Equity and liabilities | 18,300 | 12,364 |

As at 31 December 2018, Silvair, Inc. had USD 18,300 thousand in assets, up USD 5,936 thousand from the previous year. The increase in assets consisted of an increase in financial assets by USD 3,861 thousand and an increase in cash by USD 2,080 thousand. The increase in financial assets was caused mainly by an increase in the value of loans granted to a subsidiary. The increase in assets was funded by the increase in the Company's share capital resulting from the IPO process.

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

Cash flows of Silvair, Inc.

| Cash flow statement | 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 | 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 |
| a) loans to related entities | -3,796 | 23 |

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

| | | |
|--|--------|------|
| 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 |

During the year, Silvair, Inc. recorded an increase in cash by USD 2,080 thousand. This was related to net proceeds from the issue of shares. These inflows of cash were allocated in part to the granting of loans to a related entity and to the funding of current operations.

Forecasts of Silvair, Inc. financial performance

Silvair, Inc. did not publish any forecasts of its results for 2018.

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

Management of financial resources

In the past years, the Silvair Group did not use any external debt instruments (loans and bonds) with a floating interest rate.

State aid

Grant agreement with the National Center for Research and Development for activities constituting an R&D project

On 28 March 2018, the between National Center for Research and Development (NCBiR), ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. and Sway sp. o.o. (a member of the Silvair Group) entered into a Support Agreement (for the entrustment of a grant) to execute a project under the Smart Development Operational Programme 2014-2020 ("Support Agreement"). Pursuant to the Agreement, Sway Sp. z o.o. is to receive a NCBiR grant of up to PLN 3.4 million, for the implementation of tasks included in the B+R Project, specified in the Agreement, 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".

The Support Agreement stipulates that NCBiR or an entity indicated by NCBiR will enjoy certain priority rights to new shares in Sway Sp. z o.o. and the intellectual property rights held by Sway Sp. z o.o. in all fields of exploitation in the case of an intention by Sway sp. z o.o. to sell any intellectual property rights covered by the funding to a third party. Any intellectual property rights that Sway Sp. z o.o. must hold to execute the Project have been transferred to Sway Sp. z o.o. by Silvair Sp. z o.o.

Moreover, the investment agreement lays down the rules for the sale of shares in Sway Sp. z o.o. acquired by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k., which is to be effected by the transfer of ownership of shares to the Company by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. prior to the next issue of the Company's shares, in exchange for which ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. will have the right to subscribe for the Company's shares after taking up convertible notes, including in connection with the IPO.

Accordingly, on 18 May 2018, the extraordinary shareholder meeting of Sway Sp. z o.o. adopted a resolution to increase the share capital of Sway Sp. z o.o. by PLN 310 thousand, by way of issuing 6,200 new shares of a par value of PLN 50.00 each. The Shares were acquired by ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k., which became Sway's new shareholder. An amendment to the articles of association of Sway Sp. z o.o., reflecting the issue of Shares, was registered in the Court Register (KRS) on 22 June 2018.

Moreover, on 18 May 2018, the Company executed an agreement with ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. on the exchange of shares in Sway Sp. z o.o., pursuant to which ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. undertook to transfer the Shares to the Company. The transfer of the legal title to the Shares will take place on the basis of a separate shares transfer agreement. As payment for the Shares, the Company transferred to ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. a Note issued as part of the Series Three Notes worth USD 441.0 thousand. During the Company's IPO, as a result of the conversion of the debt resulting from the Notes, ASI Bridge Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. subscribed for 91,722 common shares in the Company.

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

By 31 December 2018, ASI Bridge Alfa Bitspiration Booster Spółka z ograniczoną odpowiedzialnością sp.k. invested a total of PLN 1.6 million in the acquisition of shares in Sway sp. z o.o. and entrusted the Company with a grant tranche in the total amount of USD 1.8 million.

Transactions between entities with capital ties

Information on transactions between entities with capital ties is presented in the following Notes: Note 38 to the Consolidated Financial Statements of the Silvair Group and Note 22 to the Standalone Financial Statements of Silvair, Inc.

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

Shares and shareholding structure

Shareholding structure of Silvair, Inc.

Silvair, Inc. is listed on the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.).

Share capital as at 31 December 2018

The capital of Silvair, Inc. is divided into 11,380,420 shares. The par value of the shares 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 | 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 |

To the best knowledge of the Silvair, Inc. Board of Directors, the following shareholders hold significant stakes (at least 5%) in the Company:

| Shareholder | Number of common shares | Number of preferred founder shares | Number of shares | Share of capital (%) | Number of votes at the Shareholder Meeting ¹ | % of votes at the Shareholder Meeting |
|-------------------------|-------------------------|------------------------------------|-------------------|----------------------|---|---------------------------------------|
| Szymon Słupik | 1,555,679 | 329,032 | 1,884,711 | 16.56 | 3,529,871 | 21.82 |
| Rafał Han | 970,041 | 326,400 | 1,296,441 | 11.39 | 2,928,441 | 18.10 |
| Adam Gembala | 793,408 | 225,352 | 1,018,760 | 8.95 | 2,145,520 | 13.26 |
| Trigon TFI ² | 2,213,781 | 0 | 2,213,781 | 19.45 | 2,213,781 | 13.68 |
| Others | 4,887,511 | 79,216 | 4,966,727 | 43.65 | 5,362,807 | 33.14 |
| Total | 10,420,420 | 960,000 | 11,380,420 | 100 | 16,180,420 | 100 |

¹ Pursuant to the Certificate of Incorporation: (i) a holder of one Common Share holds one vote at the Shareholder Meeting (i.e. one Common Share); (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.

² Trigon TFI – Venture FIZ and other funds managed by Trigon TFI

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

The Company's shares admitted to trading on the regulated (parallel) market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) ("WSE") have been deposited with the New York-based Depository Trust Company ("DTC") and have been credited to Cede & Co., an authorized representative of DTC. As a consequence, only registered holders of shares in the Company, such as Cede & Co. and holders of preferred shares issued to the Company's founders are treated by the Company as holders of shares in the Company and only they are entitled to the rights attaching to such shares, including the right to vote, appoint proxies, receive notifications, distributions and dividends. Beneficial holders of shares in the Company, i.e. investors holding Company shares recorded in accounts kept by members of the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) ("KDPW"), may exercise the rights attaching to Company shares only on the basis of the existing procedures and valid agreements entered into by and between DTC and its direct and indirect members, subject to any and all legal requirements in force at the time.

Changes in the shareholding structure of Silvair, Inc. in 2018

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 which were issued by the Company upon conversion of the Series Three Notes 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.

On 24 July 2018, the Company was notified, pursuant to Article 69 sec. 1 item 1 in conjunction with Article 87 sec. 1 item 2 of the Act of 29 July 2005 on Public Offerings and the Conditions for Offering Financial Instruments in an Organized Trading System and on Public Companies (i.e. Journal of Laws 2018 Item 512, as amended; "Act on Offering"), by Trigon Towarzystwo Funduszy Inwestycyjnych S.A. with its registered office in Warsaw (hereinafter: Trigon TFI S.A.), acting on behalf of the investment funds managed by Trigon

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

TFI S.A., that the funds have exceeded the threshold of 10% of votes in the total number of the votes in the Company. The funds aggregate exceeded the threshold as a result of posting on the securities accounts of the funds of the Company's common bearer shares purchased by the funds under the initial public offering of the Company's shares ("Offering") and as a result of the Company converting its debt securities (Convertible Notes) to common shares and converting the Company's Series A preferred shares into common shares in connection with the receipt of proceeds from the Offering by the Company. According to the received notification, as a result of these activities the funds managed by Trigon TFI S.A. held, as at the notification date, a total of 2,213,781 common shares, representing 19.5% of the Company's share capital and representing 2,213,781 votes at the Company's shareholder meeting, i.e. 13.7% of all the votes at the Company's shareholder meeting.

On 26 July 2018, the Company was notified, pursuant to Article 69 and in conjunction with Article 69b of the Act on Offering, about the change in the share of the total votes in the Company by Mr Rafał Han - Member of the Company's Board of Directors, as a result of the registration, on 20 July 2018, in Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository of Securities) of 10,420,420 common bearer shares, comprising: 1,184,910 common shares issued in the Offering; 448,015 common shares resulting from the conversion of the Company's debt securities after receipt of proceeds from the Offering by the Company; 4,063,495 of common shares created in the conversion of series A preferred shares into common shares after receipt of proceeds from the Offering by the Company; 4,724,000 remaining common shares of the Company and settlement of the Offering.

As a result of the above mentioned events, Mr. Rafał Han, as at the notification date, held 1,296,441 shares of the Company, representing 11.4% of the Company's share capital and 2,928,441 votes at its shareholder meeting, i.e. 18.1% of all the votes at the Company's shareholder meeting (including 970,041 common shares, representing 8.5% of the share capital and 970,041 votes at the shareholder meeting, i.e. 6.0% of the total number of votes at the shareholder meeting; and 326,400 preferred founder shares, representing 2.9% of the Company's share capital and 1,958,400 votes at the shareholder meeting, i.e. 12.1% of the total number of votes at the shareholder meeting).

Furthermore, on 26 July 2018, the Company was notified by Mr Maciej Witaliński, one of the founders of the Company, pursuant to Article 69 of the Act on Offering, about the change in the share of the total votes in the Company, as a result of the registration, on 20 July 2018, in Krajowy Depozyt Papierów Wartościowych S.A. (the National Depository of Securities) of 10,420,420 common bearer shares, comprising: 1,184,910 common shares issued in the Offering; 448,015 common shares resulting from the conversion of the Company's debt securities after receipt of proceeds from the Offering by the Company; 4,063,495 of common shares created in the conversion of series A preferred shares into common shares after receipt of proceeds from the Offering by the Company; 4,724,000 remaining common shares of the Company and settlement of the Offering. As a result of the above mentioned events, Mr Maciej Witaliński, as at the notification date, held 396,080 shares of the Company, representing 3.5% of the Company's share capital and 792,160 votes at its shareholder meeting, i.e. 4.9% of the total number of votes at the shareholder meeting (including 316,864 common shares, representing 2.8% of the share capital and 316,864 votes at the shareholder meeting, i.e. 2.0% of the total number of votes at the shareholder meeting; and 79,216 preferred founder shares, representing 0.7% of the Company's share capital and 475,296 votes at the shareholder meeting, i.e. 2.9% of the total number of votes at the shareholder meeting).

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

Shareholding structure as at the date of publication of this report:

| Shareholder | Number of common shares: | Number of preferred founder shares | Number of shares | Share of capital (%) | Number of votes at the Shareholder Meeting ¹ | % of votes at the Shareholder Meeting |
|-------------------------|--------------------------|------------------------------------|-------------------|----------------------|---|---------------------------------------|
| Szymon Słupik | 1,555,679 | 329,032 | 1,884,711 | 16.50 | 3,529,871 | 21.76 |
| Rafał Han | 970,041 | 326,400 | 1,296,441 | 11.35 | 2,928,441 | 18.05 |
| Adam Gembala | 793,408 | 225,352 | 1,018,760 | 8.92 | 2,145,520 | 13.23 |
| Trigon TFI ² | 2,213,781 | 0 | 2,213,781 | 19.38 | 2,213,781 | 13.65 |
| Others | 4,927,761 | 79,216 | 5,006,977 | 43.84 | 5,403,057 | 33.31 |
| Total | 10,460,670 | 960,000 | 11,420,670 | 100 | 16,220,670 | 100 |

¹ Pursuant to the Certificate of Incorporation: (i) a holder of one Common Share holds one vote at the Shareholder Meeting (i.e. one Common Share); (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.

² Trigon TFI – Venture FIZ and other funds managed by Trigon TFI

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

Silvair, Inc. on the Warsaw Stock Exchange

The IPO of Silvair, Inc. was held on the Warsaw Stock Exchange on 26 July 2018. The Company's shares are listed on the parallel market in the continuous trading system under the abbreviated name "SILVAIR-REGS" and the ticker "SVRS".

Basic information about the stock:

| Name | Silvair, Inc. |
|------------------|---|
| Short name | SILVAIR-REGS |
| Ticker | SVRS |
| ISIN | USU827061099 |
| Free float | 43.65% |
| First listing | 26 July 2018 |
| Number of shares | 11,380,420 |
| Segment | Small company (capitalization in the range of EUR 5-50 million) |
| Sector groups | Information technology |
| Indices | InvestorMS, WIG-INFORMATYKA, WIG |

The Company keeps an investor relations website in both Polish and English at: <https://silvair.com/investor-relations/about-company/>

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

First listing on the WSE

First listing of Silvair Inc. on the WSE – 26 July 2018



PLN 20.1 million was raised as a result of the initial public offering (IPO) from institutional and retail investors.

The newly acquired capital has been put to use in accordance with the purposes of the issue:

- Expenditures on research and development work.
- Funding of large-coverage promotional activities focused on key markets in the United States and the European Union.
- Funding the creation of distribution channels, activities aimed at attracting new partners and building a department of representatives responsible for the sale of products.

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

Other information on the shares and shareholders

Buyback of treasury stock

Neither Silvair, Inc. nor any other members of the Silvair Group were parties to any transactions involving the purchase of shares in Silvair, Inc.

Shares of the Issuer or rights thereto held by members of management or supervisory bodies of the Issuer as at the date of submission of the annual report with indication of changes in shareholding from the date of submission of the previous periodic report, separately for each of these persons:

| First and last name | Number of shares as at 28 September 2018 | Change | Number of shares as at 31 December 2018 |
|---------------------|---|--------|--|
| Szymon Stupik | 1,884,711 | - | 1,884,711 |
| Rafał Han | 1,296,441 | - | 1,296,441 |
| Adam Gembala | 1,018,760 | - | 1,018,760 |

Furthermore, the Company draws attention to the conversion of the Company's preferred stock into common stock, as described above.

Issue of the Company's common stock as part of the Company's 2016 Stock Plan

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, 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.

Dividend policy

Due to the significant capital needs related mainly to the Company's intended development and the related need to engage new funds, the Company plans mainly to reinvest a significant part of the profits expected to be generated in the future. Accordingly, in the coming years, we do not expect to pay any dividends to our shareholders.

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

According to the laws of the State of Delaware under which the Company operates, the Board of Directors makes decisions on the payment and amounts of dividends at its discretion.

Corporate governance

Corporate governance principles applicable to Silvair, Inc.

In 2018, Silvair, Inc. was subject to the corporate governance rules described in the “Code of Best Practices for WSE Listed Companies 2016” adopted by the Supervisory Board of the Warsaw Stock Exchange by way of Resolution No. 26/1413/2015 of 18 October 2015, which entered into force on 1 January 2016. The text of the corporate governance rules contained in the “Code of Best Practices for WSE Listed Companies 2016” is available on the website of the Warsaw Stock Exchange at the following address: https://www.gpw.pl/pub/GPW/files/PDF/Podrecznik_DPSN_2016_9_03_16.pdf and in the head office of Giełda Papierów Wartościowych w Warszawie S.A.

Information on the corporate governance principles adopted by the Company has been published on the following website: <https://silvair.com/investor-relations/corporate-governance/>.

The Silvair, Inc. Board of Directors hereby represents that in the financial year ended 31 December 2018, Silvair, Inc. and its corporate authorities abided by the corporate governance principles contained in the “Code of Best Practices for WSE Listed Companies 2016” with the exclusions described in section 2 below and in accordance with “Information on the status of the company’s application of the recommendations and rules laid down in the “Code of Best Practices for WSE Listed Companies 2016”, as published on the website of Silvair, Inc.

Corporate governance principles that were not applied by the issuer in 2018

On 8 March 2019, the Company issued 40,250 Common Restricted Shares. In 2018, Silvair, Inc. chose not to apply 2 recommendations contained in the “Code of Best Practices for WSE Listed Companies 2016”, namely VI.R.1. and VI.R.2., and 7 detailed principles, namely I.Z.1.19., IV.Z.4., IV.Z.13., IV.Z.15., V.Z.6., VI.Z.2. and VI.Z.3.

Described below are the reasons for the departure from the said recommendations and detailed principles:

- **Remuneration – recommendations:**

VI.R.1. The remuneration of members of the company’s governing bodies and key managers should follow the approved remuneration policy.

This principle is not applied.

Company’s explanation: The Company conducts work aimed at implementing a remuneration policy.

VI.R.2. The remuneration policy should be closely tied to the company’s strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

This principle is not applied.

Company’s explanation: See the comment regarding recommendation VI.R.1.

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

- **Disclosure policy and investor communications – detailed principles:**

I.Z.1.19. Shareholders' questions asked to the management board pursuant to Article 428 § 1 or § 6 of the Commercial Companies Code together with answers of the management board to those questions, or a detailed explanation of the reasons why no answer is provided, pursuant to principle IV.Z.13

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware. Accordingly, the provisions of the Commercial Companies Code are not applicable to it. However, if shareholders have any questions regarding the Company, the Company will consider the possibility of answering such questions, subject to the applicable laws.

- **General meeting, shareholder relations – detailed principles:**

IV.Z.4. If the management board becomes aware a general meeting being convened pursuant to Article 399 § 2 – 4 of the Commercial Company Code, the management board should immediately take steps which it is required to take in order to organize and conduct the general meeting. The foregoing applies also where a general meeting is convened under authority granted by the registration court according to Article 400 § 3 of the Commercial Company Code.

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware, hence the provisions of the Commercial Companies Code are not applicable to it.

IV.Z.13. If a shareholder request information about the company, the management board of the company should provide an answer to the shareholder's request within 30 days or inform the shareholder of its refusal to provide such information where the management board has made such decision pursuant to Article 428 § 2 or § 3 of the Commercial Company Code.

This principle is not applied.

Company's explanation: The Company has been established and operates under the laws of the State of Delaware. Accordingly, the provisions of the Commercial Companies Code are not applicable to it. However, if shareholders have any questions regarding the Company, the Company will consider the possibility of answering such questions, subject to the applicable laws.

IV.Z.15. A resolution of the general meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting the price or authorize the competent governing body to set the price prior to the subscription right record date within the timeframe necessary for investors to make decisions. This principle is not applied.

Company's explanation: In accordance with the laws of the State of Delaware, existing shareholders are not entitled to the statutory subscription rights to any shares of a new issue.

- **Conflict of interest, related party transactions – detailed principles:**

V.Z.6. In its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company, as well as the rules of conduct where a conflict of interest has arisen or may arise. The company's internal regulations should among others provide for ways to prevent,

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

identify and resolve conflicts of interest, as well as rules of excluding members of the management board or the supervisory board from participation in reviewing matters subject to a conflict of interest which has arisen or may arise.

This principle is not applied.

Company's explanation: To date, the Company has not defined in its internal regulations any criteria or circumstances under which a conflict of interest may arise in the Company, or the rules of conduct applicable to a situation where a conflict of interest has arisen or may arise. The Company intends to implement such regulations. Efforts in this area are currently underway.

- **Remuneration – detailed principles:**

VI.Z.2. To tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years.

This principle is not applied.

Company's explanation: Options granted under the stock plan established in the Company (2016 Stock Plan) provide for the possibility of their partial exercise prior to the elapse of 2 years after such options were granted. Specifically, within 2 years of the granting of such options, a maximum of 50% of the Company's shares granted in the form of such options may be subscribed for.

VI.Z.3. The remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and neither should it be linked to the company's results.

This principle is not applied.

Company's explanation: The Company currently has no supervisory board in place within the meaning of Polish law.

Description of the primary attributes of the internal control and risk management systems used in Silvair, Inc. in respect of the process of preparing standalone and consolidated financial statements

Risk management in the process of preparation of standalone and consolidated financial statements of the Silvair Group is effected at the initial stage by identification and assessment of risks and then by taking appropriate actions to eliminate or at least reduce the extent of such identified risks.

The consolidated financial statements of the Silvair Group have been prepared in accordance with International Financial Reporting Standards (IFRS) on the basis of the standalone financial statements of the parent company Silvair, Inc. and consolidation packages from its subsidiaries.

Subsidiaries of Silvair, Inc. keep their accounting ledgers and prepare their financial statements in compliance with the Accounting Act. Silvair, Inc. keeps its accounting records in compliance with local accounting standards, while reporting packages forming the basis for the preparation of the Silvair Group's consolidated financial statements are adjusted to ensure their compliance with IFRS applied by the Silvair Group. However, it should be noted that, in principle, U.S. regulations do not require Silvair, Inc. to prepare financial statements within the meaning of the Polish Accounting Act.

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

The Company has introduced a financial statements approval process. Standalone financial statements of Silvair, Inc. and consolidated financial statements of the Silvair Group covering quarterly, semi-annual and annual periods are approved prior to publication by the management boards of the respective companies and by the Silvair, Inc. Board of Directors.

Furthermore, the risk control and management process is effected by subjecting financial statements to verification by an independent statutory auditor. Annual financial statements of Silvair, Inc. and annual consolidated financial statements of the Silvair Group are verified by the same audit firm that issues audit reports. In turn, semi-annual standalone and consolidated financial statements are subjected to reviews on the basis of which review reports are issued. Information on the audit firm selected to audit and review of financial statements prepared by the Group and its members is presented in the section *“Entity authorized to audit financial statements”* of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

Silvair, Inc. shareholders holding significant stakes

To the Company’s best knowledge, as at the date of this report, shareholders holding significant stakes (at least 5%) in the Company are the entities listed in section *“Shareholding structure of Silvair, Inc.”* of this Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc.

Holders of securities with special control rights in the Company

The Company’s founders (Rafał Han, Adam Gembala, Szymon Słupik, Maciej Witaliński) are holders of the Founders Preferred Stock giving them preferred voting rights. The holder of one share of the Founders Preferred Stock holds as many votes at the Shareholder Meeting as corresponds to the six-fold of the number of Common Stock that a Preferred Founder Share may be converted into pursuant to the Certificate of Incorporation.

Indication of any limitations in exercising the right of vote, such as restrictions on exercising the right of vote by owners or a specific percentage or number of votes, time limits for exercising a right or vote or provisions according to which equity rights vested in securities are separate from the ownership of those securities

In connection with the admission to trade and floating of the Company’s stock on the parallel market of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) (**“WSE”**) (such stock hereinafter: “Admitted Stock”), the Admitted Stock was turned into book-entry form by Cede & Co., an authorized representative of the Depository Trust Company based in New York (**“DTC”**), forming the primary deposit of the Company’s stock. In turn, the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) is the secondary deposit of the Company’s stock. The exercise of voting rights attaching to the Admitted Stock is governed by the internal regulations and practices applicable to participants of the DTC system.

All restrictions on the transfer of ownership title to the issuer’s securities

The Admitted Stock is ticked as **“REGS”** and **“S”** and its quotations are marked with the ordinal number **“18”** (“trading in the issuer’s stock is subject to restrictions resulting from the provisions of U.S. securities law”). The Admitted Stock is subject to certain trade restrictions arising from the applicable provisions of U.S. law.

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

General information on the type and extent of restrictions on trading in the Admitted Stock arising from the provisions of U.S. securities law is available from the WSE website at: <https://www.gpw.pl/regulation-s>. Moreover, in connection with its IPO, the Company entered into agreements providing for the contractual restrictions on the marketability of its stock. The period of such contractual restrictions on the marketability of the Company's stock is (or was) 365 or 180 calendar days from the date of the first listing of the Issuer's stock on the WSE. As at 25 June 2018, agreements providing for restrictions on the marketability of the Company's stock apply to 92.93% of the total number of Existing Stock and Common Stock issued as a result of the conversion of the Company's Series Three Notes.

Description of the rules for appointing and dismissing managers and their powers, in particular the right to make decisions on issuing or redeeming shares

In contrast to joint-stock companies established in Poland, in which separate management and supervisory bodies exist, namely the management board and the supervisory board, the Company has a single Board of Directors. The Board of Directors operates on the basis of DGCL, the Certificate of Incorporation and the Articles of Association. As at the Prospectus Date, certain members of the Board of Directors also acted as members of Management.

- **Board of Directors**

As at the date of this Report, the Board of Directors was composed of 5 persons appointed by the Shareholder Meeting for a term of office running until the date of the next Ordinary Shareholder Meeting.

By resolution adopted by the shareholders on 25 May 2018, Mr. Paweł Szymański was appointed to the Board of Directors in place of Mr. Oktawian Jaworek. In turn, by resolution adopted by the Board of Directors on 4 September 2018, Mr. Marek Kapturkiewicz was appointed to the Board of Directors. No other changes were made to the composition of the Board of Directors in 2018.

In accordance with the provisions of the Articles of Association, as a rule, Directors are appointed by the Ordinary Shareholder Meeting for a term of office running until the date of the next Ordinary Shareholder Meeting, with each Director being required to discharge his/her function until the selection and appointment of his/her successor or until his/her earlier resignation or dismissal, which means that in the absence of the Ordinary Shareholder Meeting, the Directors continue to discharge their functions. The Company's Directors are appointed by the Ordinary Shareholder Meeting, although vacancies in the Board of Directors, including vacancies resulting from an increase in the number of its members, are filled by a majority of votes cast by acting Directors.

The number of Directors constituting the Board of Directors may be changed by way of a resolution of the Board of Directors or shareholders, subject to the provisions of the Certificate of Incorporation and the Articles of Association. A decrease in the number of Directors resulting from an adopted resolution may not result in the removal of a Director before the expiration of his/her term of office. There is no obligation to elect Directors by way of a written ballot.

In accordance with the Articles of Association, the Company may also, at the discretion of the Board of Directors, elect the President of the Board of Directors who will not be considered a member of the Company's management.

In accordance with the provisions of the Articles of Association, subject to the provisions of DGCL and all limitations arising from the provisions of the Certificate of Incorporation or the Articles of Association

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

pertaining to actions that must be approved by shareholders or votes attaching to the Company's outstanding stock, the Board of Directors manages the business and dealings of the Company.

The Board of Directors, unless the Certificate of Incorporation or the Articles of Association provide otherwise, may authorize a member of Management or an agent to execute a contract or sign a document for and on behalf of the Company and such authorization may be of a general or specific nature. Unless an authorization is issued or the action in question is ratified by the Board of Directors or lies within the power of attorney granted to a member of Management, no member of Management, agent or employee is authorized to accept obligations on behalf of the Company under contract or agreement or make any other commitments for any purpose or amount.

Scheduled meetings of the Board of Directors may be held without the need to receive a notice of the date and place set by the Board of Directors.

An extraordinary meeting of the Board of Directors may be convened for any purpose and at any time by the President of the Board of Directors, the Chief Executive Officer, the Chairperson, the Secretary or two Directors. Unless the Certificate of Incorporation or the Articles of Association contain restrictions in this respect, any action that is required or may be taken at a meeting of the Board of Directors or by any committee of the Board of Directors may be taken without a meeting if all members of the Board of Directors or of the committee, as the case may be, have expressed their consent to such action. At all meetings of the Board of Directors, the majority of the total number of Directors forms the quorum required for making valid decisions. The Company's Board of Directors may convene meetings, both ordinary and extraordinary, in the territory of the State of Delaware or elsewhere. Each Director has the right to inspect the Company's share register, the list of shareholders and other records and documents for purposes reasonably related to the function discharged by such Director. The exclusive power to decide whether a Director is entitled to effect an inspection is vested with the Chancellor's Court. The Court may, by way of an expedited procedure, order the Company to permit the Director to inspect all records and registers, the share register and the list of shareholders as well as to make copies of or extracts from such documents. The Court may, at its discretion, impose restrictions or conditions on such inspection or grant other or further remedies that it may consider fair and appropriate.

In accordance with the Articles of Association, unless other restrictions follow from the Certificate of Incorporation, the Company may extend loans or grant guarantees for liabilities or support members of Management or other employees of the Company or its subsidiaries, including a member of Management or an employee who is a Director of the Company or its subsidiary, whenever in the opinion of the Directors extending such loan, guarantee or support such action may be reasonably beneficial for the Company.

A loan, guarantee or other type of support may be provided with or without interest and may be unsecured or secured in a manner approved by the Board of Directors, in particular by a pledge on the Company's stock. This provision may not be construed as challenging or restricting the effectiveness of a guarantee or surety provided by the Company under common law or statute.

The Board of Directors may establish one or more committees by appointing one or more Directors to serve in each committee. The Board of Directors may select one or more Directors as substitute members of a committee. Such substitute members will be authorized to replace any Director absent or denied the Director's rights at a meeting of the committee. As at the date of this Report, the Company has established the Audit Committee.

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

- **Members of Management**

Members of Management are the President and the Secretary. The Company may also, at the discretion of the Board of Directors, have a Chief Executive Officer, a Chief Financial Officer, a Treasurer, one or more Vice-Presidents, one or more Deputy Secretaries and one or more Deputy Treasurers. One person may discharge any number of functions in Management.

Members of Management are appointed by the Board of Directors (with the exceptions described below), subject to the powers (if any) of the relevant member of Management arising from his/her employment contract. The Board of Directors may appoint or authorize the Chief Executive Officer or the President to appoint other members of Management and attorneys-in-fact that may be required by the Company's business. The term of office and the rights and obligations of each such person are provided for in the Articles of Association or determined by the Board of Directors. A vacancy in Management is filled by the Board of Directors.

Subject to the powers (if any) of a member of Management following from his/her employment contract, any member of Management may be dismissed, with or without cause, by a majority of members of the Board of Directors cast at an ordinary or extraordinary meeting of the Board of Directors or, except when a member of Management elected by the Board of Directors is concerned, by any member of Management who has been duly authorized by the Board of Directors to dismiss the said member of Management. A member of Management may resign from his/her function at any time by submitting a written notice of termination to the Company. Such resignation becomes effective as of the date of receipt of the notice of termination or as of a later date specified therein. Unless a notice of termination provides otherwise, the effectiveness of such resignation is not contingent on its acceptance. No resignation affects the Company's powers (if any) vested in it under the contract executed between it and the relevant member of Management.

As at 31 December 2018, the following persons served as members of Management:

- **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, Treasurer, Secretary

In 2018, no changes were made to the composition or functions entrusted to members of Management.

Description of how the members of the Management operate:

Chief Executive Officer (CEO)

Subject to the (possible) supervisory rights the Board of Directors may confer on its President (if appointed), the Chief Executive Officer (CEO) (if appointed), while being subject to the control of the Board of Directors, exercises overall supervision, management and control of the business of the Company and the members of Management and holds the overall rights and duties for management that customarily accompany serving in the capacity of Chief Executive Officer, as well as the other rights and duties that may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Chief Executive Officer acts as the President of the Board of Directors if no other person serves in that capacity.

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

President of the Board of Directors

Subject to the (possible) supervisory rights the Board of Directors may confer on its President (if appointed) or the Chief Executive Officer, the President exercises overall supervision, management and control of the business of the Company and the other members of Management. The President also holds the overall rights and duties for management that customarily accompany serving in this capacity, as well as the other rights and duties that may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of President acts as the Chief Executive Officer, Secretary or Treasurer of the Company if no other person serves in that capacity.

Vice-President of the Board of Directors

In the event of absence or indisposition of the Chief Executive Officer and the President, the Vice-Presidents (if appointed) shall discharge all duties according to the hierarchy prescribed by the Board of Directors, while if the Board of Directors fails to prescribe their hierarchy, the Vice-President designated by the Board of Directors shall do so. While acting in this capacity the Vice-Presidents hold all the rights vested in the President and are subject to all the limitations imposed on the President. The Vice-Presidents also hold the other rights and perform the other duties which may be assigned to them by the Board of Directors, the Articles of Association or the President of the Board of Directors.

Secretary

The Secretary keeps, or orders the keeping of, the book of minutes of all meetings and shareholder meetings and activities undertaken by the Directors, committees of the Directors and shareholders in the main seat of the Management or in some other venue designated by the Board of Directors. The minutes state the time and place of holding every meeting, the names of the participants in meetings of the Board of Directors or in meetings of committees, the number of shares in attendance or represented at shareholder meetings and the course of proceedings thereof. The Secretary keeps, or orders the keeping of, the share book or a duplicate copy of the share book containing the information prescribed by the Articles of Association in the main seat of the Company or in the office of the Company's transfer agent or the entity keeping its register in accordance with the provisions of the resolution adopted by the Board of Directors. The Secretary conveys, or orders the conveyance of, notices of all Shareholder Meetings and meetings of the Board of Directors, as required by law or the provisions of the Articles of Association. He or she also holds the other rights and performs the other duties which may be assigned to him or her by the Board of Directors or the Articles of Association.

Chief Financial Officer (CFO)

The Chief Financial Officer keeps, or orders the keeping of, the pertinent and accurate accounting ledgers and bookkeeping records of the Company's assets and business transactions, including accounts of assets, liabilities, proceeds, expenses, profits, losses, equity, retained earnings and shares. The accounting ledgers are available to the members of the Board of Directors to review at all reasonable times. At the request of the Chief Executive Officer, President or Board of Directors, the Chief Financial Officer presents to them a report on all the transactions he or she executes in the capacity of Chief Financial Officer and on the Company's financial position.

The Chief Financial Officer holds the overall rights and duties that customarily accompany serving in the capacity of the Chief Financial Officer, as well as the other rights and duties which may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Chief

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Financial Officer acts as the Treasurer if no other person serves in that capacity. Subject to the (possible) supervisory rights the Board of Directors may confer on some other member of Management, the Chief Financial Officer supervises and assigns duties to the Treasurer provided that some other person besides him or herself is discharging the duties of Treasurer.

Treasurer

The Treasurer keeps, or orders the keeping of, the pertinent ledgers and records of all the Company's bank accounts, deposit accounts, cash accounts or other investment accounts. The accounting ledgers are available to the members of the Board of Directors to review at all reasonable times. The Treasurer makes deposits with the custodians designated by the Board of Directors.

At the instructions of the Board of Directors the Treasurer orders the depositing of all cash and other valuables on behalf and for the account of the Company and disburses the Company's funds. Moreover, the Treasurer conveys a report of all the transactions he or she executes as the Treasurer to the Chief Financial Officer, Chief Executive Officer and President of the Board of Directors at their request. The Treasurer holds the overall rights and duties that customarily accompany serving in the capacity of the company's Treasurer, as well as the other rights and duties which may be assigned to him or her by the Board of Directors or the Articles of Association. The person serving in the capacity of Treasurer acts as the Chief Financial Officer if no other person serves in that capacity.

Exercising rights attached to shares in other companies

The President of the Board of Directors, each Vice-President, Chief Executive Officer, Chief Financial Officer, Secretary, deputy Secretary or other person authorized by the Board of Directors or Chief Executive Officer, President or Vice-President is authorized to vote and exercise on behalf of the Company any and all rights attached to shares in another company held by the Company. The authorization granted pursuant to the Articles of Association may be used directly by the aforementioned person or other person authorized by the proxy or pursuant to a power-of-attorney granted by a person authorized to do so.

Rights and duties of members of Management

In addition to the rights and duties described above, all members of Management have the rights and perform duties with regard to managing the Company's operations assigned to them by the Board of Directors or shareholders.

Pursuant to § 141(h) DGCL the Board of Directors is authorized to set the remuneration for members of the Board of Directors, subject to the fiduciary duties with regard to the Company, comprising the duty of care and the duty of loyalty. The Board of Directors is obligated to set the Directors' remuneration in accordance with the Company's interests.

The provisions of the Articles of Association confirm the above provisions of DGCL. The remuneration received for discharging the function of Director does not prevent the Director from discharging other functions in the Company and receiving remuneration for it.

As at the date of the Report, in addition to the rules for setting the remuneration of members of the Board of Directors described above or following from the provisions of applicable laws, in the Company there are no other principles in place in accordance with which the remuneration for members of the Board of Directors is set. The Company will consider implementing a policy for setting the remuneration for members

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of the Board of Directors in the future, as the scale of the Company's business increases, taking into account market standards and respecting the interests of the Company's stakeholders.

Description of rules of changing the issuer's bylaws or company deed

The Company's Certificate of Incorporation may be amended in a manner permitted by relevant provisions of law. Pursuant to the Delaware General Corporate Law, amendment or repealing of the Certificate of Incorporation requires a majority of votes attached to Common Shares and Founders Preferred Stock.

Operating principles of the shareholder meeting and its key powers, and a description of shareholders' rights and how they are exercised, in particular the rules arising from the shareholder meeting bylaws, if any, unless information in this regard ensues directly from the provisions of law

At the Ordinary Shareholder Meeting shareholders elect members of the Board of Directors and review all other matters duly included in the Shareholder Meeting agenda. An Extraordinary Shareholder Meeting may be convened for any purpose. An Extraordinary Shareholder Meeting may review only matters specified in the notice convening it.

The shareholders' consent is required, with certain exceptions, for a number of key matters, including but not limited to: (i) election of Directors (however in certain circumstances the Board of Directors may appoint a Director, filling a vacancy in the Board of Directors; (ii) amendment of the Certificate of Incorporation; (iii) merger with another company; (iv) sale of all or substantially all assets of the Company; (v) introduction or material amendment of certain employee stock or stock option plans or other plans for rewarding employees in the form of participation in the share capital; (vi) issue or potential issue of stock resulting in change of control over the Company. DGCL requires approval of amendments of the Certificate of Incorporation by the Board of Directors and a vote in favor of the proposed amendment by shareholders representing a majority of outstanding voting shares.

Pursuant to § 228 DGCL, unless the Certificate of Incorporation stipulates otherwise, any and all acts whose performance requires an ordinary or extraordinary shareholder meeting of the Company or any and all acts which may be performed at an ordinary or extraordinary shareholder meeting may be performed without convening the meeting, without prior notice and without the necessity to vote if the consent granted in writing specifying the acts that are expected to be performed in such manner is (a) signed by the holders of the Company's outstanding shares holding at least the minimum number of votes which would be required to approve or perform such act at the meeting at which the holders of all voting shares would be present and would vote and (b) delivered to the Company in accordance with the provisions of § 228(a) DGCL.

DGCL requires that the notice of an ordinary or extraordinary shareholder meeting be given at least 10 days (or at least 20 days in the case of meetings pertaining to certain matters, such as voting on the merger or sale of all or substantially all assets of the Company) and no more than 60 days before the date of the shareholder meeting. It is mandatory to notify all shareholders holding voting rights on the record date, unless DGCL stipulates otherwise.

In accordance with DGCL, if within 30 days of the date set for the ordinary shareholder meeting, the Ordinary Shareholder Meeting is not held and relevant acts are not performed with the written consent of the shareholders entitled to elect the Company's directors, or if the date of the ordinary shareholder meeting is not set within 13 months of the date of the previous Ordinary Shareholder Meeting or performance of relevant acts without convening it with the written consent of the shareholders entitled to

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elect directors, each Company shareholder entitled to vote at the Ordinary Shareholder Meeting has the right to file a motion to a Delaware court (Chancery Court) for a court order to immediately convene the Ordinary Shareholder Meeting.

An Extraordinary Shareholder Meeting may be convened at any time by the Board of Directors, President of the Board of Directors, Chief Executive Officer, Chairman or one or more shareholders holding shares entitling them in total to exercise no less than 10% votes at such meeting. If the Extraordinary General Meeting is convened by a person or persons other than the Board of Directors, President of the Board of Directors, Chief Executive Officer or Chairman, the motion for convening the meeting must be in writing, define the date of such Extraordinary Shareholder Meeting and generally present the issues to be included in its agenda.

The exercise of voting rights attaching to the Admitted Stock is governed by the internal regulations and practices applicable to participants of the DTC system.

Shareholder Meetings may be held at any place, in or out of the state of Delaware, which may be defined in the certificate of incorporation or articles of association and if it is not defined, they are held in a place specified by the Board of Directors. Unless the Board of Directors specifies a different place, the Shareholder Meeting is held in the Company's registered office.

To determine the group of shareholders entitled to receive a notice of the Shareholder Meeting or its deferral, or to give written consent to the Company to take actions without convening the Shareholder Meeting, the Board of Directors may set the record date falling no earlier than the date of adoption by the Board of Directors of a resolution setting such date and, unless the provisions of law stipulate otherwise, no earlier than 60 days and no later than 10 days before the date of such Shareholder Meeting. Unless the Board of Directors sets, at the time of setting the record date, a later date of determining the group of shareholders entitled to exercise voting rights at the given Shareholder Meeting, falling no later than on the Shareholder Meeting date, the date of determining the group of shareholders entitled to receive the notice of the Shareholder Meeting will be at the same time the date of determining the group of shareholders entitled to exercise voting rights at the given Shareholder Meeting. If the record date is not set, the record date will be the end of business on the business day directly preceding the date of delivery of the notice, and in the case the notice is waived, the end of business on the business day directly preceding the date of holding the meeting.

In accordance with the Articles of Association, the quorum at the Shareholder Meeting means the holders of one third of outstanding shares with voting rights, present in person or represented by proxy.

Subject to contrary provisions of law, each common share in the Company entitles its holder to cast one vote in each matter correctly submitted for resolution by the Company's shareholders by ballot; however, subject to contrary provisions of law, the holders of common shares are not entitled to vote in the matter of amendment of the Certificate of Incorporation pertaining only to the conditions applicable to one or more series of preferred shares, if the holders of the shares of the given series are entitled, separately or jointly as a class with the holders or one or more series, to vote with such shares pursuant to the Certificate of Incorporation.

The holders of common shares and the holders of Founders Preferred Stock vote jointly in the same class on all matters. Each holder of a Common Share is entitled to 1 vote and each holder of Founders Preferred Stock

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is entitled to the number of votes equal to six times the number of Common Shares (i.e., as at the date of the report, 6 votes) to which the relevant Founders Preferred Stock may be converted.

Description of the dealings of management, supervising or administration bodies of the issuer with indication of the composition of such bodies and any changes thereto during the last financial year

Description of the dealings of management and supervisory bodies, i.e. the Board of Directors and management, is presented in section 8 of this Report above.

In 2018, the Audit Committee was established in the Company, composed of:

- Adam Gembala,
- Marek Kapturkiewicz,
- Paweł Szymański

The purpose behind the establishment of the Audit Committee of the Board of Directors is to supervise the Company's accounting and financial reporting processes as well as oversee audits of the Company's financial statements. However, the Committee is not responsible for planning or conducting audits or for determining whether the Company's financial statements are complete and accurate or whether they have been prepared in accordance with generally accepted accounting principles.

The Committee is composed of at least two members of the Board of Directors. The Committee adopts its resolutions by a majority of votes. Meetings of the Committee are held as often as it is necessary to perform its tasks in an effective manner. In 2018, the Audit Committee carried out its duties during working consultations. The following members of the Audit Committee satisfy the requirement of independence from the Company: Marek Kapturkiewicz and Paweł Szymański.

The Audit Committee may, in particular:

- monitor the financial reporting process, the effective operation of internal control systems, risk management systems and internal audit, among others with regard to financial reporting,
- oversee the work of an independent auditor (e.g. by resolving any disputes that may arise between management and the independent auditor regarding financial reporting), evaluate the independent auditor's performance and, if so determined by the Committee, replace the independent auditor,
- review the plan and scope of audits and related services,
- receive, evaluate and discuss financial statements with the auditor, oversee and evaluate the auditor's independence and, in respect of such financial statements, take appropriate action to resolve any issues brought up during such evaluation or recommend such actions to the Board of Directors,
- prior to the issue of an audit report by the independent auditor, provide the independent auditor with information on the course of the audit and provide information relevant to the audit,
- discuss with the independent auditor issues related to the Company's risk assessment, guidelines, policies and processes in the area of risk management,
- prepare a policy for the selection of an audit firm to perform an audit.

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

Additional information

Employees

At yearend 2018, the Silvair Group (the parent company Silvair, Inc. and subsidiaries consolidated using the full method) employed a total of 76 persons. At the end of the comparable period, that is at yearend 2017, the Group's headcount was 80 persons. The slight decline in headcount was caused, among other factors, by competition on the local labor market, but the resulting competence gaps were quickly filled as experienced individuals were hired to selected engineering teams and to the product team.

The following table presents the Silvair Group's headcount figures (without members of the Board of Directors) as at the indicated date, specifying the types of contracts applied:

| | 31 December 2018 | 31 December 2017 |
|---------------------|-------------------|-------------------|
| employment contract | 42 persons | 42 persons |
| mandate contract | 7 persons | 9 persons |
| B2B* | 26 persons | 28 persons |
| appointment | 1 person | 1 person |
| Total | 76 persons | 80 persons |

* B2B – contract for the provision of services with a separate business entity. Persons providing services under B2B contracts to both Silvair sp. z o.o. and Sway sp. z o.o. have been counted only once.

At the turn of 2017 and 2018, an employee satisfaction survey was carried out, revealing a high overall level of satisfaction among staff. The level of employee satisfaction was also monitored on a regular basis through direct meetings with staff members.

In 2018, the Company strengthened its Employer Branding activities, the responsibility for which was assigned to specific employees. A “Career” tab has been designed and added to the website and the Company's visual identification was implemented to facilitate communication with current and potential employees.

A calendar of events promoting Silvair on the labor market was also developed for the purpose of strengthening the Company's perception as an employer. One such event was an industry meeting held under the patronage of Silvair. Moreover, the Company's promotional efforts were intensified through suitable social media channels, including the Company's Facebook page.

Silvair operates on the basis of values that have been verified and visualized both on the website and in the office space. The basic assumptions are: Teamwork, Development, Responsibility for entrusted tasks and broadly construed Curiosity, both in the context of the product and modern technologies.

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Employees are provided with opportunities to improve their language and workplace competences, and most of them take advantage of such opportunities, for instance by participating in international conferences, on-line training courses and language courses.

Also promoted is the exchange of knowledge between employees: internal Tech-Talks are held and cooperation with an external mentor dedicated to improving competences in one of the teams has been established.

The values of compensation received by key personnel are presented in Note 37 to the Consolidated Financial Statements and in Note 21 to the Standalone Financial Statements.

Share-based payment contracts are described in Note 30 to the Consolidated Financial Statements and in Note 15 to the Standalone Financial Statements.

Entity authorized to audit financial statements

On 27 December 2018, the Company's Board of Directors adopted a resolution to select Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań (postal code: 61-131) at ul. abpa Antoniego Baraniaka 88 E, entered in the Register of Commercial Undertakings kept by the District Court for Poznań – Nowe Miasto and Wilda in Poznań, 8th Commercial Division of the National Court Register, under file number KRS 407558, taxpayer identification no. NIP 782-25-45-999, audit firm no. 4055 ("Grant Thornton"), as the audit firm that will audit the Company's financial statements. Prior to the above date, neither the Company nor its related entities had used any services provided by Grant Thornton. Moreover, no permitted non-audit services had been provided to the Company by Grant Thornton.

The selection of Grant Thornton was preceded by an evaluation of the independence of this firm and was based on the guidelines laid down in the Auditor Selection Policy, under which, without limitation:

- an audit firm is selected by the Company's Board of Directors in the form of a resolution. An audit firm is selected after becoming familiar with the Audit Committee's recommendation for the Board of Directors,
- the decision on selecting an audit firm is made in compliance with the principles of the audit firm's impartiality and independence and having analyzed the possible work to be performed by that company in the SILVAIR Group going beyond the audit of the financial statements, in order to avoid a conflict of interest,
- an audit firm should be selected by the Board of Directors by the end of the third quarter of the financial year, for which the financial statements will be audited,
- the Board of Directors follows the principle of rotation of audit firms and key auditors,
- the first agreement to audit financial statements will be concluded with an audit firm for a period of no less than two years, with an option of extension for further periods of at least two years,
- no contractual clauses may be introduced that would require the Board of Directors to select an entity authorized to conduct an audit from among a specified category or list of entities authorized to conduct an audit. Such clauses are invalid by law,

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

- after selecting the audit firm, the Company makes a public announcement of the selection of the audit firm by the Board of Directors.

The Board of Directors adopted its resolution on the selection of Grant Thornton based on the recommendation provided by the Audit Committee regarding the selection of an audit firm to perform the audit. The Audit Committee, at the stage of preparation of recommendations, and the Board of Directors, during the final selection of audit firms, are guided in particular by the following guidelines for selecting an entity authorized to conduct the audit:

- the quality of audit work performed, the level of resources that may be allocated for the performance of the agreement, efficiency of the work performed,
- impartiality and independence of the audit firm, compliance with the applicable laws, professional standards and professional ethics principles,
- experience of the audit firm,
- the fee charged for the services,
- assurance that the audit will be conducted in accordance with the International Financial Reporting Standards,
- professional background and experience of the persons directly involved in the audit,
- reputation of the audit firm on financial markets.

The recommendation provided by the Audit Committee on the selection of an audit firm satisfied the applicable conditions and was prepared in accordance with the selection procedure adopted by the Company that satisfied the applicable criteria.

In accordance with the agreement of 27 December 2018 entered into by and between the Company, Grant Thornton Polska Sp. z o.o. Sp.k. will audit of the Company's annual financial statements (standalone and consolidated) for 2018 and 2019 and review the Company's financial statements (standalone and consolidated) for the first half of 2019.

The interim standalone and consolidated financial statements for the first half of 2018 were reviewed by UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Kraków at ul. Moniuszki 50.

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

Table: Auditor's fee

| Range of services | Accounting standards | Net fee (in PLN) for 2018 | Net fee (in PLN) for 2019 |
|---|----------------------|---------------------------|---------------------------|
| Audit of the standalone annual financial statements | IFRS* | 11,000 | 11,000 |
| Audit of the consolidated annual financial statements | IFRS* | 22,000 | 22,000 |
| Review of the standalone financial statements | IFRS* | 15,800 | 7,000 |
| Review of the consolidated financial statements*** | IFRS* | 11,000 | 18,000 |

* International Financial Reporting Standards;

** Polish Accounting Standards;

*** The price includes a review of the procedures adopted by subsidiaries.

Disputes

From 1 January to 31 December 2018, no proceedings relating to any liabilities or receivables of Silvair, Inc. or any of its subsidiaries were pending before any court, arbitration body or public administration authority the value of which was equivalent to at least 5% of the Company's equity.

Contingent liabilities

In order to secure the loan granted by PARP in the amount of PLN 2.0 million with the outstanding balance of PLN 1.05 million (USD 279 thousand) as at 31 December 2018, Sway Sp. z o.o. issued a blank promissory note. Except for that promissory note, as at 31 September 2018 and as at 31 December 2017, the Group had no other contingent liabilities.

As at 31 December 2018 and 31 December 2017, Group Companies were not acting as guarantors or sureties and also had not drawn their own or received third party promissory notes as collateral or payment for transactions. No changes in contingent liabilities were posted in the period after the closing of the most recent financial year to the date of these interim financial statements. There are no contingent assets. There were no contingent assets as at 31 December 2018 or 31 December 2017.

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

Representations

Representation by the Board of Directors of Silvair, Inc. on the reliability of the financial statements prepared by the Silvair Group

(in compliance with § 71 Section 1 Item 6 of the Finance Minister's Regulation of 29 March 2018 on 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)

The Board of Directors of Silvair, Inc. hereby represents that:

To the best knowledge of the members of the Board of Directors, the annual consolidated financial statements and the standalone financial statements for the financial year 2018 ended 31 December 2018 and comparative data have been prepared in line with the prevailing accounting principles, and reflect the issuer group's asset situation, financial situation and financial results in a reliable, accurate and clear manner.

The Report of the Board of Directors on the activities of the Silvair Group and Silvair, Inc. contains a true picture of the development, achievements and situation of Silvair, Inc. and the Silvair Group, including a description of basic threats and risks. The Board of Directors of Silvair, Inc. additionally represents that the entity authorized to audit the financial statements, which audited the consolidated financial statements and the standalone financial statements had been selected in accordance with the law and that entity and the auditors who audited the statements satisfied the requirements for expressing an impartial and independent opinion on the audited annual consolidated financial statements and standalone financial statements in accordance with the applicable laws, professional standards and professional ethics principles.

The issuer has adopted a policy governing the selection of an audit firm and a policy governing the provision of additional non-audit services to the issuer by an audit firm, its related parties and members of its network, including services conditionally exempt from the prohibition on being provided by an audit firm.

The applicable laws providing for the rotation of the audit firm and the key statutory auditor and waiting periods have been complied with by the Company.

In the financial year ended 31 December 2018, the Audit Committee was established at Silvair, Inc. However, keeping in mind the fact that Silvair, Inc. was established and operates in accordance with the laws of the State of Delaware and is not directly subject to the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 Item 1089, "Act"), the Board of Directors hereby represents that the Audit Committee has performed and continues to perform its tasks in compliance with the requirements provided for in the Act, as applied accordingly, and that, based on the above assumptions, the rules laid down in the Act concerning the formation, composition and functioning of the Audit Committee, including the fulfilment of independence criteria by its members and requirements concerning knowledge and skills related to the industry in which the issuer operates, as well as to accounting or the audit of financial statements, are observed.

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

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

Director

Marek Kapturkiewicz

Director

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