Interim condensed consolidated financial statements of the Silvair, Inc. Group

Kraków, 30 September 2019

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General information

Parent Company

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

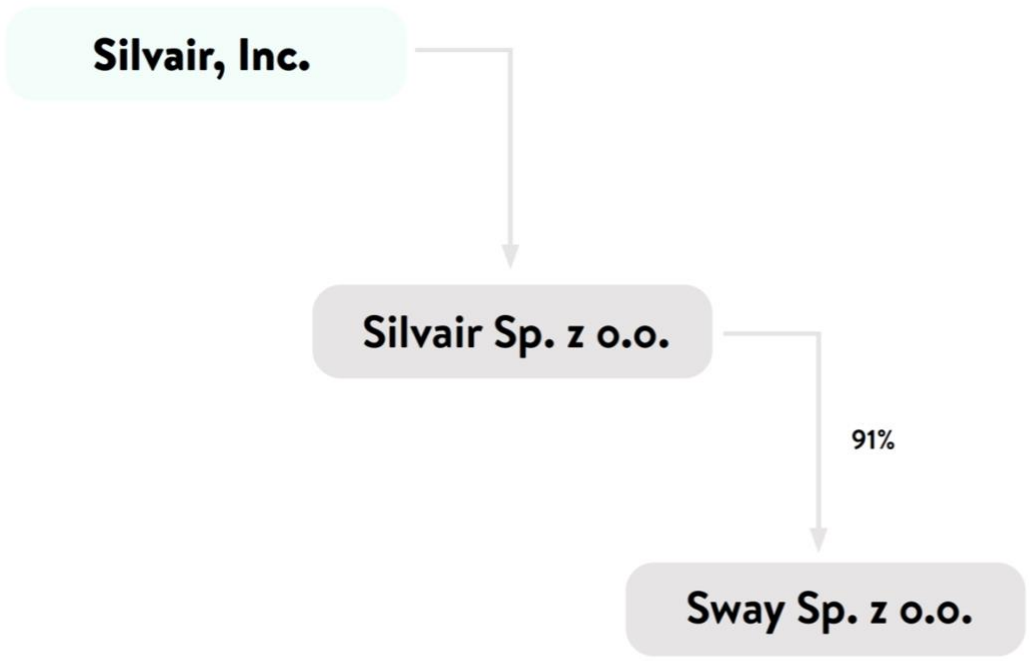
Group's business

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

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

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

The Group



Functional and presentation currency

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

For each subsidiary, functional currency is determined and the assets and liabilities of the subsidiary are measured in that functional currency. The Group uses the direct consolidation method, which entails translation of the financial statements of its subsidiaries directly into the functional currency of the ultimate parent company, and it has chosen a method of recognizing translation gains and losses that is consistent with this method.

The Group uses the average USD/PLN exchange rate of the National Bank of Poland as the immediate exchange rate. The results and the financial position of all the Group entities, whose functional currencies differ from the presentation currency, are translated into the presentation currency as follows:

- assets and liabilities in each statement of financial position are translated at the closing exchange rate in effect on that balance sheet date;
- income and expenses in each statement of comprehensive income are translated at average exchange rates (unless the average exchange rate is not a satisfactory approximation of the cumulative effect of exchange rates on the transaction dates – in such a case, income and expenses are translated at the exchange rates in effect on the relevant transaction dates);

- equity of subsidiaries and interests in subsidiaries are excluded for consolidation purposes at the historical exchange rate as at the date of taking up the shares; and
- any resulting foreign exchange differences are cumulatively recognized in other comprehensive income as a separate component of equity.

Presentation periods

The interim condensed consolidated financial statements were prepared as at 30 June 2019 and cover the period of 6 months, i.e. from 1 January 2019 to 30 June 2019.

For the data presented in the interim condensed consolidated statement of financial position and off-balance sheet items, comparative financial data were presented as at 30 June 2018 and as at 31 December 2018.

For the data presented in the interim condensed consolidated profit and loss account, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and consolidated cash flow statement, comparative financial data were presented for the period from 1 January 2018 to 30 June 2018.

Going concern assumption

The statements have been drawn up based on the going concern assumption for 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 Group 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 the first revenue flows and the Silvair Group's intention is to keep expanding the scale of commercialization of its products in 2019 and beyond.

In the reporting period the Group entered into new cooperation agreements with leaders from the lighting industry, such as: Linmore LED Labs Inc with its registered office in the US, Mc Wong International Inc with its registered office in the US, which the Issuer reported in its current reports. On 10 July 2019, the Group signed another important cooperation agreement with Osram GmbH with its registered office in Germany, and on 18 July 2019 with Legrand Electric Limited from the United Kingdom, which the Issuer reported in its Current Reports No. 11/2019 and 12/2019, respectively.

On 8 August 2019, the Company's Board of Directors adopted a resolution to approve the incurring of a liability up to a total par value of USD 5.5 million in the form of convertible promissory notes ("**Convertible Securities**") and set the key terms of issue of the Convertible Securities.

As part of the total maximum issue amount approved by the Board of Directors, the issues of Convertible Securities have to be effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("**United States Securities Act**") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues.

In accordance with the decision of the Company's Board of Directors, the Convertible Securities bear interest at a fixed interest rate. The holders of Convertible Securities may demand their redemption after elapse of one year from the issue date ("**Redemption Date**"). In addition, with the consent of the holders of Convertible Securities representing a majority of the outstanding par value of the Convertible Securities, the Company may, according to the terms of the Convertible Securities, repay the liabilities resulting from the Convertible Securities before their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due and payable in the cases defined in the terms of the Convertible Securities, including in particular submission of a petition for the Company's bankruptcy or petition for application of any remedy pursuant to the federal bankruptcy law and appointment of a commissioner or trustee to manage the Company's assets.

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

As at the date of preparation of these statements the Company issued Convertible Securities with the total par value of USD 1.412 million. At the same time the Company continues preparations to raise financing through a new issue of the Company's shares or other financial instruments, in accordance with the information presented above.

At the same time, the Board of Directors conducts activities, in collaboration with its financial advisor, aimed at raising funding from an issue of new shares. 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 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.

Composition of the corporate bodies of the Parent Company as at 30 June 2019

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President, Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Marek Kapturkiewicz — Director

Officers:

Rafał Han — Chief Executive Officer

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

Consolidation

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

As at 30 June 2019 and as at 30 June 2018, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o. As at 30 June 2019, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o.

As at 30 June 2018, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o. The financial data of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with IFRS, are prepared for the same reporting period as the statements of the Parent Company, applying consistent accounting principles, based on uniform accounting principles applied for transactions and similar economic events. Adjustments are made in order to eliminate any discrepancies in the application of accounting policies.

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

The Company reviews whether or not it has control over other entities if an event occurs that indicates a change of one or more of the above conditions of control. Any significant balances and transactions between the Group companies, including unrealized profit from intra-Group transactions, have been fully eliminated.

Selected financial data

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

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

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2019 – 30.06.2019	1.1303	1.1134	1.1524	1.1388
01.01.2018 – 31.12.2018	1.1798	1.1235	1.2528	1.1437
01.01.2018 – 30.06.2018	1.2061	1.1520	1.2528	1.1650

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

Reporting period	Average exchange rate in the period	Minimum rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2019 – 30.06.2019	0.2636	0.2584	0.2685	0.2678
01.01.2018 – 31.12.2018	0.2762	0.2613	0.3014	0.2660
01.01.2018 – 30.06.2018	0.2842	0.2652	0.3014	0.2698

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

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

Selected financial data translated as at the balance sheet date:

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

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

Item	USD		EUR		PLN	
	01.01.2019 –30.06.2019	01.01.2018 –30.06.2018	01.01.2019 –30.06.2019	01.01.2018 –30.06.2018	01.01.2019 –30.06.2019	01.01.2018 –30.06.2018
Net revenue on the sale of products, goods and materials	114	1	101	1	432	4
Operating profit (loss)	-1,518	-1,745	-1,343	-1,447	-5,759	-6,140
Profit (loss) before tax	-1,574	-1,924	-1,393	-1,595	-5,971	-6,770
Profit (loss) of the period	-1,557	-1,654	-1,377	-1,371	-5,907	-5,820
Net cash flows from operating activities	-856	-942	-757	-782	-3,247	-3,311
Net cash flows from investing activities	-1,343	-835	-1,188	-693	-5,095	-2,939
Net cash flows from financing activities	-106	1,844	-94	1,531	-402	6,490
Total net cash flows	-2,305	67	-2,039	56	-8,744	237

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

For items of the statement of financial position

Item	USD		EUR		PLN	
	30.06.2019	31.12.2018	30.06.2019	31.12.2018	30.06.2019	31.12.2018
Total assets	12,002	13,077	10,539	11,434	44,811	49,162
Liabilities and provisions for liabilities	2,058	1,769	1,807	1,547	7,684	6,650
Liabilities non-current	191	165	168	144	713	620
Liabilities current	1,867	1,604	1,639	1,402	6,971	6,030
Equity attributable to the shareholders of the parent company	9,556	10,901	8,391	9,531	35,678	40,981
Share capital	1,142	1,138	1,003	995	4,264	4,278
Number of shares	11,420,670	11,380,420	11,420,670	11,380,420	11,420,670	11,380,420
Weighted average number of shares	11,400,545	10,556,458	11,400,545	10,556,458	11,400,545	10,556,458
Earnings/(loss) per share (in USD and EUR)	-0.14	-0.26	-0.12	-0.22	-0.52	-0.94
Book value per share (in USD and EUR)	0.84	1.03	0.73	0.90	3.13	3.88

Representation by the Board of Directors

These interim condensed consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 30 June 2019 and to the extent required by the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 20 April 2018 Item 757).

Representations by the Board of Directors on the preparation and publication of the financial statements for the period from 1 January to 30 June 2019 are presented in the Report by the Board of Directors of Silvair, Inc. on the activity of the Silvair, Inc. Group for H1 2019.

Interim condensed consolidated financial statements of Silvair, Inc.

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

Interim consolidated statement of financial position

	Note No.	30 June 2019	31 December 2018	30 June 2018
A. Non-current assets		**10,704**	**9,540**	**8,342**
I. Costs of development work	**1**	9,753	8,838	7,828
II. Other intangible assets	**2**	16	18	-
III. Property, plant and equipment	**3**	44	57	56
IV. Right-of-use asset	**3.7**	250	-	-
V. Financial assets	**4**	7	7	7
VI. Deferred tax assets	**5**	634	620	452
B. Current assets		**1,298**	**3,537**	**1,331**
I. Inventory	**6**	18	13	47
II. Trade receivables	**7**	58	20	22
III. Other receivables	**8**	171	140	151
IV. Prepayments and accruals	**9**	23	31	25
V. Financial assets	**10**	-	-	-
VI. Cash and cash equivalents	**11**	1,028	3,333	1,086
Total assets		**12,002**	**13,077**	**9,673**

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

	Note No.	30 June 2019	31 December 2018	30 June 2018
A. Equity		**9,944**	**11,308**	**7,858**
Equity attributable to the owners of the parent company		**9,556**	**10,901**	**7,434**
I. Share capital	**12**	1,142	1,138	975
II. Capital from revaluation of options	**13**	273	155	69
III. Other capital	**14**	21,181	21,147	16,652
IV. Capital from foreign exchange differences from translation of foreign operations		1,090	1,034	1,223
V. Retained earnings	**15**	-12,573	-9,814	-9,831
VI. Financial result of the current period		-1,557	-2,759	-1,654
Equity attributable to non-controlling entities		**388**	**407**	**424**
B. Non-current liabilities		**191**	**165**	**242**
I. Deferred tax liabilities	**17**	26	28	31
II. Lease liabilities	**18.1**	86	-	-
III. Other liabilities non-current	**18**	79	137	211
C. Current liabilities		**1,867**	**1,604**	**1,573**
I. Trade liabilities	**19**	225	172	220
II. Liabilities from contracts with customers	**20**	41	-	-
III. Lease liabilities	**18.1**	166	-	-
IV. Other liabilities current	**20**	323	318	308
V. Other provisions current	**20**	75	52	-
VI. Prepayments and accruals	**21**	1,037	1,062	1,045
Equity and liabilities		**12,002**	**13,077**	**9,673**

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

Interim consolidated profit and loss account with consolidated statement of comprehensive income

Interim consolidated profit and loss account	Note No.	01.01.2019 –30.06.2019	01.01.2018 –30.06.2018
A. Income	**22**	**114**	**1**
B. Cost of sales		**395**	**-**
C. Gross sales result		**-281**	**1**
I. Selling and distribution expenses		237	260
II. General and administrative expenses		1,020	1,530
D. Net sales result		**-1,538**	**-1,789**
I. Other operating income	**24**	44	47
II. Other operating expenses	**25**	24	3
E. Operating result		**-1,518**	**-1,745**
I. Financial income	**27**	29	-
II. Financial costs	**28**	85	179
F. Result before tax		**-1,574**	**-1,924**
I. Income tax	**29**	2	-267
a) current part		5	1
b) deferred part		-3	-268
G. Profit/(loss) for the period		**-1,576**	**-1,657**
Profit/(loss) attributable to:			
shareholders of the parent company		-1,557	-1,654
non-controlling interest		-19	-3

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

	1 January 2019 – 30 June 2019	1 January 2018 – 30 June 2018
Net earnings/(loss) per share (in USD)	**-0.14**	**-0.17**
Diluted earnings/(loss) per share (in USD)	**-0.12**	**-0.16**

Interim consolidated statement of other comprehensive income	1 January 2019 – 30 June 2019	1 January 2018 – 30 June 2018
Profit/(loss) for the period	**-1,576**	**-1,657**
Other comprehensive income	**174**	**- 195**
1. Other comprehensive income to be reclassified to result in the future	56	-275
– foreign exchange differences from translation of foreign operations	56	-275
2. Other comprehensive income not to be reclassified to result in the future	118	80
Total comprehensive income	**-1,402**	**-1,852**
Total comprehensive income attributable to:		
shareholders of the parent company	-1,383	- 1,849
non-controlling interest	-19	-3

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

Interim consolidated statement of changes in equity

Interim consolidated statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Capital from foreign exchange differences from translationof foreign operations	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2019	**1,138**	**155**	**21,147**	**1,034**	**-12,573**	**-**	**10,901**	**407**	**11,308**
Correction of errors	-	-	-	-	-	-	-	-	-
At the beginning of the period 1 January 2019, adjusted	**1,138**	**155**	**21,147**	**1,034**	**-12,573**	**-**	**10,901**	**407**	**11,308**
Exercise of stock options for Company shares	-	-38	34	-	-	-	-4	-	-4
Issue of new shares as part of the stock plan	4	-	-	-	-	-	4	-	4
Valuation of stock options under IFRS 2	-	156	-	-	-	-	156	-	156
Expenditures incurred in connection with the planned stock issue	-	-	-	-	-	-	-	-	-
Bonds convertible to shares classified as equity instruments	-	-	-	-	-	-	-	-	-
Foreign exchange translation differences	-	-	-	56	-	-	56	-	56
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	-	-
Result of the period	-	-	-	-	-	-1,557	-1,557	-19	-1,576

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

At the end of the period 30 June 2019	**1,142**	**273**	**21,181**		**1,090**	**-12,573**	**-1,557**	**9,556**	**388**	**9,944**

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

Consolidated statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2018	**973**	**287**	**15,286**	**1,498**	**-10,095**	**-**	**7,949**	**-**	**7,949**
Correction of errors	-	-264	-	-	264	-	-	-	-
At the beginning of the period 1 January 2018, corrected	**973**	**23**	**15,286**	**1,498**	**-9,831**	**-**	**7,949**	**-**	**7,949**
Exercise of stock options for Company shares	2	-34	34	-	-	-	2	-	2
Issue of new shares through IPO	119	-	5,325	-	-	-	5,444	-	5,444
Valuation of stock options under IFRS 2	-	166	-	-	-	-	166	-	166
Expenditures incurred in connection with the planned stock issue	-	-	-924	-	17	-	-907	-	-907
Bonds convertible to shares classified as equity instruments	44	-	1,426	-	-	-	1,470	-	1,470
Foreign exchange translation differences	-	-	-	-464	-	-	-464	-	-464
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	427	427
Result of the period	-	-	-	-	-	-2,759	-2,759	-20	-2,779
At the end of the period 31 December 2018	**1,138**	**155**	**21,147**	**1,034**	**-9,814**	**-2,759**	**10,901**	**407**	**11,308**

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

Interim consolidated statement of changes in equity	Share capital	Capital from revaluation of options	Other capital	Capital from foreign exchange differences from translation of foreign operations	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 1 January 2018	**973**	**287**	**15,286**	**1,498**	**-10,095**	**-**	**7,949**	**-**	**7,949**
Changes in accounting policies	-	-264	-	-	264	-	-	-	-
At the beginning of the period 1 January 2018, corrected	**973**	**23**	**15,286**	**1,498**	**-9,831**	**-**	**7,949**	**-**	**7,949**
Exercise of stock options for Company shares	2	-34	34	-	-	-	2	-	2
Valuation of stock options under IFRS 2	-	80	-	-	-	-	80	-	80
Expenditures incurred in connection with the planned stock issue	-	-	-138	-	-	-	-138	-	-138
Bonds convertible to shares classified as equity instruments	-	-	1,470	-	-	-	1,470	-	1,470
Foreign exchange translation differences	-	-	-	-275	-	-	-275	-	-275
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	427	427
Result of the period	-	-	-	-	-	-1,654	-1,654	-3	-1,657
At the end of the period 30 June 2018	**975**	**69**	**16,652**	**1,223**	**-9,831**	**-1,654**	**7,434**	**424**	**7,858**

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

Interim consolidated cash flow statement

	Note No.	01.01.2019 – 30.06.2019	01.01.2018 – 30.06.2018
Profit (loss) before tax		**-1,574**	**-1,924**
Adjustments for:		**718**	**983**
1. Depreciation and amortization	**1**	594	345
2. Foreign exchange gains (losses)		22	-9
3. Interest and profit sharing (dividends)		-11	12
4. Change in provisions		23	-
5. Change in inventories		-5	4
6. Movement in receivables		-69	-44
7. Movement in current liabilities, except for loans and borrowings		58	17
8. Tax paid		5	2
9. Change in prepayments and accruals		-17	439
10. Other adjustments resulting from operating activity		118	219
Net cash from operating activities		**-856**	**-941**
Proceeds		-	-
1. Disposal of intangible assets and property, plant and equipment		-	-
2. From financial assets, including:		-	-
a) in related entities		-	-
b) in other entities		-	-
Expenditures		1,393	835
1. Purchase of intangible assets and property, plant and equipment		10	22

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

2. Expenditures incurred for development work	1,333	813
3. For financial assets, including:	-	-
a) in other entities	-	-
Net cash from investing activities	**-1,343**	**-835**
Proceeds	67	1,930
1. Net proceeds from issuing shares and additional capital contributions	38	1,928
2. Loans and borrowings drawn	-	-
3. Interest	29	1
Expenditures	173	86
1. Repayment of loans and borrowings	75	72
2. Repayment of lease liabilities	80	-
3. Interest	18	13
Net cash from financing activities	**-106**	**1,844**
Net cash flows	**-2,305**	**68**
Movement in cash	**-2,305**	**68**
- movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**3,333**	**1,018**
Cash and cash equivalents at the end of the period	**1,028**	**1,086**

Explanatory notes to the interim condensed consolidated financial statements

Corrections of prior period errors

Type of error

In 2018, the Group effected a retrospective correction of an error made in the previous reporting period. This error concerned the share-based payment agreements described in Note 30. As at 30 June 2018, the Group published an erroneous calculation of the balance of capital from revaluation of management options. The consequences of the correction are described below.

Impact on interim consolidated financial statements

Statement of financial position as at 30 June 2018	
Item	**Amount**
Capital from revaluation of options	-331
Retained earnings	264
Financial result	67

Interim consolidated profit and loss account for the period from 1 January 2018 to 30 June 2018	
Item	**Amount**
Payroll costs	-67

Impact on earnings/(loss) per share

Earnings/(loss) per share in the period covered by the interim consolidated financial statements: 30 June 2018	
Weighted average number of the company’s shares in the period	9,747,495
Number of diluting options	569,000
Weighted average number of the company’s shares in the period after diluting options	10,095,495
Loss before the correction (USD ’000s)	-1,721
Loss after the correction (USD ’000s)	-1,654
Earnings/(loss) per share (USD) after the correction	-0.17
Diluted earnings/(loss) per share (USD) after the correction	-0.16

Impact on the interim consolidated statement of financial position as at 30 June 2018

Interim consolidated statement of financial position (USD ’000s)	As at 30 June 2018 published	Change	As at 30 June 2018 corrected
A. Non-current assets	**8,342**	**-**	**8,342**
I. Costs of development work	7,828		7,828
II. Other intangible assets	-	-	-
III. Property, plant and equipment	56	-	56
IV. Financial assets	7	-	7
V. Deferred tax assets	452	-	452
B. Current assets	**1,331**	**-**	**1,331**
I. Inventory	47	-	47
II. Trade receivables	22	-	22
III. Other receivables	151	-	151
IV. Prepayments and accruals	25	-	25
V. Financial assets	-	-	-
VI. Cash and cash equivalents	1,086	-	1,086
Total assets	**9,673**	**-**	**9,673**

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

	As at 30 June 2018 published	Change	As at 30 June 2018 corrected
A. Equity	**7,434**	**-**	**7,434**
I. Share capital	975	-	973
II. Capital from revaluation of options	400	-331	69
III. Other capital	16,652	-	16,652
IV. Capital from foreign exchange differences from translation of foreign operations	1,223	-	1,223
V. Retained earnings	-10,095	264	-9,831
VI. Financial result of the current period	-1721	67	-1,654
B. Minority interest	**424**	**-**	**424**
C. Non-current liabilities	**242**	**-**	**242**
I. Deferred tax liabilities	31	-	31
II. Other non-current liabilities	211	-	211
D. Current liabilities	**1,573**	**-**	**1,573**
I. Trade liabilities	220	-	220
II. Other current liabilities	308	-	308
III. Prepayments and accruals	1,045	-	1,045
Equity and liabilities	**9,673**	**-**	**9,673**

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

Impact on the interim consolidated profit and loss account for the period from 1 January 2018 to 30 June 2018

Interim consolidated statement of profit or loss	Period from 1 January 2018 to 30 June 2018 published	Change	Period from 1 January 2018 to 30 June 2018 corrected
A. Income	**1**	**-**	**1**
B. Cost of sales	**-**	**-**	**-**
C. Gross sales result	**1**	**-**	**1**
I. Selling and distribution expenses	260	-	260
II. General and administrative expenses	1,597	-67	1,530
D. Net sales result	**-1,856**	**67**	**-1,789**
I. Other operating income	47	-	47
II. Other operating expenses	3	-	3
E. Operating result	**-1,812**	**67**	**-1,745**
I. Financial income	-	-	-
II. Financial costs	179	-	179
F. Result before tax	**-1,991**	**67**	**-1,924**
I. Income tax	-267	-	-267
current part	1	-	1
deferred part	-268	-	-268
G. Profit/(loss) for the period	**-1,724**	**67**	**-1,657**
Profit/(loss) attributable to:			
shareholders of the parent company	-1,721	67	-1,654
non-controlling interest	-3	-	-3

Compliance with International Financial Reporting Standards

Basis for preparation

These interim consolidated financial statements have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss or through other comprehensive income, financial assets measured at amortized cost, financial liabilities measured at fair value and financial assets measured at amortized cost.

These interim condensed consolidated financial statements of the Group comprise the period of 6 months ended 30 June 2019 and have been prepared in accordance with IAS 34 "Interim Financial Reporting".

For fuller understanding of the Group's assets and financial position, additionally the interim consolidated statement of financial position as at 30 June 2018 and consolidated statement of changes in equity for 2018 were presented for comparative periods, although there is no such requirement in IAS 34.

The interim condensed consolidated financial statements do not contain information that is disclosed in the annual consolidated financial statements pursuant to IFRS. These interim condensed consolidated financial statements should be read together with the consolidated financial statements of the Group for 2018.

Accounting policy

These interim condensed consolidated financial statements have been prepared in accordance with the accounting policies which were presented in the latest consolidated financial statements of the Group for the year ended 31 December 2018, except for the changes resulting from entry into force of new standards, interpretations and amendments to standards, as described below.

- New IFRS 16 "Leases"

  The new standard replaces IAS 17 and several interpretations. Apart from the change of the definition of lease, the standard introduces changes in lessees' accounting: it requires that the balance sheet recognizes, for every lease contract, the value of the "right-of-use asset" and the corresponding financial liability. The right-of-use asset is then amortized, while the liability is measured at amortized cost. In specific situations identified in the standard, the lease liability is subject to remeasurement, whose effects are, as a rule, recognized as an adjustment to the right-of-use asset.

  Practical expedients were envisaged for short-term contracts (up to 12 months) and low-value asset leases, which the Group adopted in its accounting policies. The practical expedient involves the possibility of not recognizing the liabilities for such leases.

  The accounting approach to leases on the part of the lessor is similar to the rules laid down in the existing IAS 17.

  The Group implemented IFRS 16 using the modified retrospective method, i.e. without transformation of comparative data, and recognizing the total effect of initial application of the standard as an adjustment to the opening balance of retained earnings on initial application date. In addition, the Group applied the following practical solutions allowed by the standard:

- as at the date of initial application of IFRS 16, the Group did not carry out a reassessment of whether the given contract is a lease or whether it comprises a lease; the Group applied the standard only to agreements which were identified as leases before such date pursuant to IAS 17 and IFRIC 4,
- the value of the right-of-use under all contracts previously classified by the Group as operating lease pursuant to IAS 17 as at the date of initial application of IFRS 16 was determined in the amount of the lease liability adjusted by the fees and prepayments recognized in the consolidated statement of financial position directly before the date of initial application,
- the knowledge acquired *post factum* when determining the lease period was used.

Due to using the practical expedients, the Group used IAS 36 as at the date of initial application of IFRS 16 to assess the necessity to recognize impairment losses on the value of the right-of-use assets. The analysis has not shown such necessity.

The Group does not have any real property in perpetual usufruct.

The new standard has impact on the Group's financial statements. As at the date of initial application, the Group was the lessee in 2 lease agreements, described more broadly in Note 38. As at the date of preparation of the consolidated financial statements as at 31 December 2018, analyzing the impact of IFRS 16 on the Group's financial statements, due to the short-term nature of the contracts, the Group's took advantage of the exemption envisaged for short-term contracts (up to 12 months).

On 30 June 2019, the term of the contracts providing for the right to use the property in which Silvair Sp. z o.o. and Sway Sp. z o.o. conduct activity was extended to 31 December 2020. In connection with the change of the contract, the Group reassessed the classification of the agreements pursuant to IFRS 16 and concluded that the agreement satisfies the criteria for recognition of right-of-use assets.

Below is a presentation (USD '000s) of the reconciliation between the liabilities to make operating lease payments disclosed pursuant to IAS 17 in the financial statements as at 31 December 2018 and the lease liability as at the date of initial application of IFRS 16. Since the Issuer does not use any bank loans or borrowings or other leases, for the needs of the interest rate it could not rely on its own ratios, hence it adopted the WIBOR3M + interest for 2-year treasury bonds as the interest rate used to determined the lease liability.

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

Item	Values
Operating lease payment liability disclosed as at 31 December 2018	**344**
Exemption for short-term leases	-
Operating lease payment liability before discount	**344**
Discount effect (-)	-12
Weighted average of the marginal interest rate used to determined the value of lease liabilities	3.82%
Operating lease payment liability	**332**
Finance lease liabilities as at 31 December 2018	-
Lease liability as at 1 January 2019	**332**

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

- IFRS 15 "Revenue from Contracts with Customers"

  In these consolidated financial statements the Group applied for the first time the IFRS 15 standard "Contracts with Customers" and clarifications to IFRS 15 "Revenue from Contracts with Customers". The standard replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts". The fundamental principle of the new standard is to recognize revenues in a manner that reflects the transfer of promised goods or services to customers and in an amount that reflects the fee to which the Group expects to be entitled in exchange for such goods or services. All goods or services sold in bundles which can be separated within the bundle should be recognized separately and all discounts and rebates applicable to the transaction price should be, in principle, allocated to individual elements of the bundle. If the amount of revenue is variable, according to the new standard, variable consideration is only included in revenues if it is highly probable that there will be no revenue reversal in the future as a result of revaluation.

  In addition, in accordance with IFRS 15, the costs incurred to obtain and secure a contract with a customer should be capitalized and settled throughout the period of consuming the benefits from such contract.

  The Company did not report any sales revenues in 2018, thus the new standard had no impact on the financial statements for 2018. As of 2019, in connection with concluded contracts with customers, the Group applied IFRS 15. A description of the accounting policies is presented in the description of adopted accounting policies and the disclosures were made in Notes 20.4, 22.1, 22.2.

- New IFRIC 23 "Uncertainty over Income Tax Treatments"

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

The Group did not have any transactions whose recognition raised tax doubts. The Group decided to reduce the amount of deferred tax assets in connection with the probable reduction of the possibility of using them in entirety in the future. Information about the change of the deferred tax assets is presented in Note 5.

Other amendments introduced in 2019:

- Amendments to IFRS 9 "Financial Instruments"
- Amendment to IAS 28 "Investments in Associates and Joint Ventures"
- Amendments to IAS 12 "Income Taxes", IAS 23 "Borrowing Costs", IFRS 3 "Business Combinations" and IFRS 11 "Joint Arrangements".
- Amendments to IAS 19 "Employee Benefits"

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

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

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

- Amendments to IFRS 3 "Business Combinations"

These amendments apply to business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and for acquisitions of assets effected in or after this reporting period. Accordingly, the amendments in question will not affect the Group's financial statements.

The Group estimates that the above standards, interpretations and amendments to standards would have had no material influence on the interim consolidated financial statements, had they been applied by the Group as at the balance sheet date. The Group intends to apply the said regulations on the dates set as the dates of application for the respective standards or interpretations.

Uncertainty of estimates

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

Subjective assessments and judgments

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

- impairment of expenditures for development work (see Note 1.1)
- impairment of other intangible assets (see Note 2.1)
- impairment of property, plant and equipment (see Note 3.1)
- impairment losses (see Note 5, 6 and 7)
- revenues from contracts with customers (see Note 22.1)
- provisions (see Note 20.3)
- share-based payment agreements (see Note 30)

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

Seasonality of business

The Group's business is not seasonal. An increase in revenues in H1 this year in relation to previous periods is the consequence of planned activities and the execution of trade agreements.

Business combinations and loss of control

In the first 6 months of 2019 there were no business combinations or loss control in the Group. There were no such events in 2018 either.

Description of accepted accounting policies

Translation of items in foreign currencies

Transactions captured in the ledgers of the Parent Company Silvair, Inc. denominated in currencies other than USD are translated into US dollars at the rate effective on the transaction date.

As at the balance sheet date, monetary assets and liabilities expressed in currencies other than USD are translated into US dollars using the average exchange rate for such a currency in effect at the end of the reporting period.

The functional currency of both subsidiaries is PLN. As at the balance sheet date, assets and liabilities of these foreign subsidiaries are translated into the Group's presentation currency using the exchange rate in effect on the balance sheet date and their statements of comprehensive income are translated at the average exchange rates for the financial period. The translation method is described in the *Functional and presentation currency* section.

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

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

	30 June 2019	31 December 2018	30 June 2018
PLN/USD	0.2678	0.2660	0.2671

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

	For the period from 1 January 2019 to 30 June 2019	For the period from 1 January 2018 to 31 December 2018	For the period from 1 January 2018 to 30 June 2018
PLN/USD	0.2636	0.2769	0.2842

Property, plant and equipment

The Group recognizes as fixed assets: individual items fit for use that meet the criteria defined for fixed assets in IAS 16 if the purchase price (production cost) is at least USD 3,500. Fixed assets worth less than USD 3,500 are depreciated or written off in full in the month of their purchase, unless, due to the specific nature of the Group's operations, they constitute in aggregate a significant asset.

Property, plant and equipment is initially recognized at cost (purchase price or production cost) less depreciation charges and impairment losses in subsequent periods. Costs of external financing related directly to the acquisition or production of assets that require a longer period of time to become fit for use or resale are added to the production cost of such fixed assets only if non-recognition of such costs would materially affect the reliability and clarity of presentation of its assets. Such costs are added at the moment financing is incurred for the construction of fixed assets until the moment such fixed assets are put into use. Modernization costs are included in the carrying amount of fixed assets when it is probable that the Group would accrue economic benefits on this account and the costs incurred for modernization can be measured reliably. All other expenses incurred on repair and maintenance of fixed assets are charged to the profit and loss account in the reporting periods in which they were incurred. The Group also classifies the following as fixed assets: fixed assets under construction and investments in third party fixed assets and the right of perpetual usufruct of land.

Depreciation is calculated for all fixed assets, except for land and fixed assets under construction, for the estimated period of useful life of those assets, using the straight line method, starting in the month following the month, in which the asset is accepted for use. The Group verifies periodically, no later than at the end of the financial year, the assumed useful lives of fixed assets, residual value and depreciation methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively).

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

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

As at the balance sheet date, the Group also reviews property, plant and equipment for impairment and assesses the need to recognize impairment losses on this account. This occurs when the Group becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

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

An item of property, plant and equipment may be derecognized if disposed of or if the company does not expect to realize any future economic benefits from its further use. Any gains or losses on derecognition of an asset from the balance sheet (calculated as the difference between net proceeds from its sale, if any, and the carrying amount of the asset) are captured in the profit or loss of the period, in which the asset is derecognized. Investments in progress are fixed assets under construction or under assembly and are stated at purchase price or production cost less any impairment losses. Fixed assets under construction are not depreciated until completed and commissioned for use.

Costs of development work

Expenditures for development are measured at production cost less depreciation charges and impairment losses.

The estimate useful lives for the costs of development work is no more than 10 years.

An intangible asset arising from development work is recognized if, and only if, the Group can demonstrate all the issues specified in IAS 38 necessary to incorporate development work in an asset, if the Group is able to prove:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- the ability to measure reliably the expenditure incurred during development which may be assigned to the intangible asset.

Production cost of intangible assets that has the nature of development includes direct costs comprised of costs of materials, work of the Group's employees and services directly related to the development work as well as a justified portion of indirect (departmental) costs.

The moment of starting the capitalization of costs is determined on the basis of the management's professional judgment regarding the (technological and economic) possibility of completing the project. This moment is triggered by reaching a project stage (milestone) after which there is justified certainty that the entity is able to complete the intangible asset to make it fit for use or sale and that future economic benefits obtained as a result of the use or sale will exceed the production cost of the given intangible asset.

Development work not yet completed is recognized in the intangible assets line item and are not amortized until their completion. For completed development work, the company applies the purchase price and production cost model under IAS 38 and recognizes them at production cost less total depreciation charges calculated based on their useful life and impairment losses. The Group verifies periodically, no later than at the end of the financial year, the assumed useful lives of intangible assets and amortization methods, while the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively). Amortization is calculated using the straight-line method over the anticipated period of earning revenues from the sale of the project, until full amortization of the intangible assets. In exceptional circumstances, the Group may calculate amortization taking the residual value into account. Expenditures for development, which ended with a negative effect or which was discontinued, is classified as costs of the period on a one-off basis.

The cost of development work is recognized in profit or loss at the moment it is incurred.

As at the balance sheet date, the Group reviews the progress status of each project and reviews intangible assets for impairment and the need to recognize impairment losses on this account. This occurs when the Group becomes sufficiently certain that an asset will not bring the expected economic benefits or will bring significantly lower benefits in the future. Impairment loss is recognized at the surplus of the asset's carrying amount over its recoverable amount. Recoverable amount is the higher of: fair value less the cost necessary in connection with its sale, or value in use.

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

Other intangible assets

Intangible assets are measured at historic purchase cost or production cost less depreciation charges and impairment losses. Amortization is accrued using the straight-line method.

The estimate amortization period of intangible assets ranges from 2 to 5 years.

Intangible assets may include intangible assets with indefinite useful lives and goodwill. Goodwill and intangible assets with indefinite useful lives are not amortized. They are tested for impairment on an annual basis.

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

Other financial assets (other than investments in subsidiaries)

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

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

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

Inventory

Inventory is measured at the lower of the purchase price/production cost and net realizable value.

The costs incurred in bringing each component of inventory to its present location and condition – both in respect of the current year and the previous year – are recognized as follows:

- Materials – at purchase price using the "first in, first out" method.
- Finished products and work in progress – the cost of direct materials and labor and an appropriate overhead of indirect manufacturing costs determined under the assumption of normal production capacity utilization, excluding external financing.
- Merchandise – at purchase price using the "first in, first out" method.

Net realizable selling price is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Receivables from customers and other financial receivables are measured at fair value at initial recognition and at amortized cost as at the balance sheet date using the effective interest rate minus impairment losses.

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

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

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

Assets from contracts with customers

The Group recognizes, in contract assets, the right to remuneration in return for goods or services that the Group has provided to the customer if this right is dependent on a condition other than the passage of time.

The Group assesses whether a contract asset is impaired on the same principles as in the case of financial assets under IFRS 9.

If the Group incurred additional costs associated with efforts aimed at executing the contract with the customer which the Group expects to recover they are recognized as an asset. The additional costs associated with efforts aimed at executing the contract are the costs incurred by the Group to execute the contract with the customer which it would not have incurred if the contract had not been concluded. The costs associated with efforts aimed at executing the contract incurred regardless of whether the contract was concluded or not are recognized as costs at the time they are incurred.

The costs of performance of a contract which are recognized as an asset are understood by the Group, in particular, as:

- sales commissions on extension of contracts (retention),
- costs of installations not subject to IAS 16,

Capitalized costs associated with efforts aimed at executing and performing a contract are subject to amortization in the period in which the services under the contract are provided to the customer.

An analysis of the contracts from the perspective of IFRS 15 has shown that there are no assets on account of contracts with customers.

Prepayments and accruals

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

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

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

As part of prepayments and accruals, asset-related grants are also recognized.

If there is reasonable certainty that the subsidy will be obtained and all the related terms and conditions complied with, government subsidies are recognized at their fair value.

If the subsidy relates to a particular cost item, it is recognized as revenue in proportion to the costs which the subsidy is supposed to compensate for. If the subsidy is related to an asset, its fair value is recognized on the "revenue from future periods" account and then gradually entered on the profit and loss account by means of equal annual write-offs for the estimated useful life for the related asset.

Cash and cash equivalents

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

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

Equity

The Group's equity is comprised of:

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

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

Capital from revaluation of options (share-based payment)

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

Fair value of awarded options (bonds) to purchase the Parent Company's shares is estimated by an independent expert using modern financial engineering methods and numerical methods. The measurement includes: input price for the model, strike price of the instrument, expected volatility of the instrument, risk-free interest rate and expected dividend.

Other capital is created from:

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

- charges to profits of successive financial years.

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

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

Provisions for liabilities

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

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

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

Trade liabilities and other non-financial liabilities

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

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

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

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

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

Liabilities from contracts with customers

Liabilities from contracts with customers constitute the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. From the moment of occurrence of sales revenues the Group has been applying the requirements of IFRS 15 and liabilities from contracts with customers present future revenues on account of such services as IT maintenance, which are spread over time. Each time the Group makes a professional judgment and estimate of the advancement of performance of the contracts in relation to the issued invoices and allocation of the transaction price.

Financial liabilities

A financial liability is any liability that is:

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

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

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

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

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

Income tax

Income tax includes: current tax and deferred tax.

Current tax liability

Current tax liability is calculated on the basis of the tax result (taxable base) of the financial year.

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

Deferred tax

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

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

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

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

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

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

Revenues and operating expenses

Revenue is the inflow of economic benefits during the period arising in the course of the ordinary activities of the Group when those inflows result in increases in equity, other than increases relating to contributions from shareholders.

Sales revenues are made up only of revenues from contracts with customers falling within the scope of IFRS 15. The manner of recognition of sales revenues in the consolidated financial statements, including both the value and the timing of revenue recognition, is determined by a five-stage model consisting of the following steps:

- identify the contract with the customer,

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

Identify the contract with the customer

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

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

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

Identify the performance obligations

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

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

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

Determine the transaction price

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

Allocate the transaction price to performance obligations

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

Recognize revenue when or as the entity satisfies a performance obligation

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

Significant financing component

If the contract includes a significant financing element, determining the transaction price, the Group adjusts the promised amount of consideration by the change of the time value of money. A significant financing element appears in the contract if the distribution of the payments over time agreed by the parties (express or implied) gives the customer or the Group significant benefits on account of financing the transfer of the goods or services to the customer.

To determine the transaction price the Group adjusts the promised amount of consideration by the significant financing component, using the discount rate which would be applied in the case of conclusion of a separate financing transaction between the Group and its customer at contract inception.

However, the Group applies the practical expedient specified in paragraph 63 of IFRS 15, making it possible to assume that the amount of consideration does not comprise a significant financing component because in the Company's business practice the expected period (in accordance with the contracts with customers) from the delivery of the goods or performance of services to the receipt of the payment from the customer does not exceed one year. Therefore for short-term prepayments the Group did not single out any significant financing element.

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

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

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

The Group conducts sales on the basis of 2 types of contracts defining the scope of delivered services, materials and licenses.

The contracts have a written form and include:

- Commissioning Service Agreement (CSA), consisting in delivery of a web application and a mobile application for activation and control of lighting management software.
- Supply, License and Service Agreement (SLS), where, on the basis of a license agreement, the Group delivers firmware for wireless lighting control, hardware for downloading software, and software service and maintenance.

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for control of the lighting management software for and on behalf of the Partner. Under these agreements it is also possible to provide the Silvair platform for lighting without the firmware developed by Silvair.

The revenue from the sale of the products and services provided under CSA agreements (except for service and maintenance services) is recognized at the time of performance of the obligation to provide the service and hand-over of control and benefits to the customer.

Under CSA agreements, guarantee software service and maintenance are a separate item.

The revenue from service and maintenance is recognized over time because the customer uses the provided service as it is provided by the supplier.

Revenues from CSA agreements constitute a separate operating segment presented as the Silvair Platform. Information about the segments is presented in Note 23.

Under **Supply, License and Service Agreements (SLS)**:

- a product in the form of firmware for wireless lighting control is delivered. The software is downloaded from the cloud via the Internet and is installed on components manufactured by the Partner. The software is delivered on the basis of a license.
- In addition, hardware is delivered for installation of the Silvair MaTE software, which is connected on the production line to the Partner's computer (making it possible to download activation keys for the software and installation of the firmware from the cloud in the Partner's components).
- Software service and maintenance is guaranteed.

Revenues from SLS agreements constitute a separate operating segment presented as the Silvair Mesh Stack. Information about the segments is presented in Note 23.

Under the agreements, the licenses sold by the Group constitute a separate obligation to deliver a performance and have the nature of a license with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer.

This is equivalent to an assertion that in the case of own licenses sold without significant accompanying services, regardless of the term for which the license is sold, the revenue is recognized at the time of hand-over of control, which leads to one-off recognition of the revenue at such time. In the case of sale of licenses which grant the right to access intellectual property, such licenses are sold, as a rule, for a definite term.CSA and SLS agreements present also revenues from own maintenance services, and the revenue is recognized over time because the customer uses the provided service as it is provided by the supplier. CSA and SLS agreements define the consideration for each contractual obligation. The transaction price is allocated to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer. The Group has analyzed whether it performed its entire obligation and estimated which services should be settled over time and which should be included in the revenues for the period.

Financial activity revenues and expenses

Financial income recognized in the profit and loss account includes mainly interest on investing available funds on bank accounts and positive foreign exchange differences. Other elements that may comprise financial income are commissions and interest on loans granted, late interest on receivables, amounts of forgiven loans and borrowings and the amounts of reversed provisions related to the financing activity. Financial costs include mainly interests on bonds and loans, commissions and handling fees and other bank fees. Other elements that may comprise financial costs include: provisions recognized for certain or probable losses from financial operations, value at purchase price of interests, shares, securities sold, losses on the settlement of derivatives.

Notes and explanations to the condensed interim consolidated financial statements

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

Note 1.1 Costs of development work

Costs of development work	30.06.2019	31.12.2018	30.06.2018
Completed development work	8,161	8,601	4,888
Development work not yet completed	1,592	237	2,940
Total	**9,753**	**8,838**	**7,828**

In the period from 1 January do 30 June 2019, the Group's capitalized costs of development work amounted to USD 1.33 million, of which: USD 428 thousand – Silvair Platform, USD 616 thousand - Lighting Firmware, USD 128 thousand - Bluetooth Mesh Silvair Protocol and USD 161 thousand for execution of the Sway ALS project, not assigned to the segments (other activity). The work under the ALS project is financed from the NCBiR grant described in Note 40.

Due to the uniqueness of its activity the Issuer has singled out and currently executes 3 interrelated development projects, whose total value is a major part of the development work assets:

Bluetooth Mesh protocol:

The aim of the project is to prepare and develop a wireless communication protocol in the mesh topology based on the Bluetooth technology The project is executed in cooperation with other partners in the task force appointed by the Bluetooth Special Interest Group, aiming to prepare the specification and develop the Bluetooth Mesh standard. The project has been being developed since 2014 and is of open nature, i.e. individual protocol development work stages are closed (i.e. accepted for use) together with publication of subsequent versions of the Bluetooth Mesh standard. The first stage of the development work under the project was closed in 2017, combined with publication of the new standard. The second stage started in the same year (2017) and its aim is to develop and publish the next version of the Bluetooth Mesh standard. In the reporting period from 1 January to 30 June 2019 the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

Silvair Mesh Stack:

The aim of the project is to develop a firmware stack for electronic devices (in particular for electronic lighting components) on the basis of a standardized communication protocol Bluetooth Mesh. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with publication of subsequent commercial versions of the software. The first stage of development work was completed in 2017, one day after the publication of the standard, together with the qualification, by the Bluetooth SIG, of implementation of the software released by the Issuer, i.e. the software stack (the so-called Mesh Core) and the application layer (the so-called Model Mesh Core). The second stage of development work was completed by the end of 2018 together with the Issuer releasing the next commercial version of the software (the so-called Silvair Lighting Firmware). From the beginning of 2019 the third stage of the work has been under way. In the reporting period, the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

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

Silvair Platform:

The aim of the project is to develop a technology and service platform, comprising digital tools for launch, configuration and management of smart lighting networks, and an infrastructure that allows the Company to provide innovative services. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol and the Silvair Mesh Stack, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with delivery of subsequent commercial versions of the tools and expansion of the scope of the services provided by the Issuer. The first stage of development work was completed by the end of 2018 together with the Issuer releasing the commercial version of the tools (the so-called Commissioning Tool). From the beginning of 2019 the second stage of the work has been under way. In the reporting period, the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

Amortization of costs of development work	Period ended 30 June 2019	Period ended 30 June 2018
Completed development work	493	320
Development work not yet completed	-	-
Total	**493**	**320**

From 1 January 2019 amortization of completed development work has been charged to cost of sales, which is dictated by the sale of the products subject to completed development work. In previous years amortization was charged to general and administrative expenses, while amortization of other intangible assets used to carry out R&D projects was capitalized as the value of development work.

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of expenditures on development work. Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset.

The adopted 10-year amortization period is justified by the innovative nature of the developed technology and its market potential, backed up by the global Bluetooth Mesh standard. The amortization period has been estimated taking into account the useful life of the technology and the possibility of deriving benefits from individual development works.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

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

Note 1.2 Changes in costs of development work

No.	Item	Costs of development work (*)	Total
1.	**Gross value at the beginning of the period 1 January 2019**	**10,186**	**10,186**
	Additions, including:	1,409	1,409
	– expenditures incurred	1,333	1,333
	– foreign exchange differences from measurement in presentation currency	76	76
	Reductions, including:	-	-
	– liquidation and sale	-	-
2.	**Gross value at the end of the period 30 June 2019**	**11,595**	**11,595**
3.	**Accumulated depreciation at the beginning of the period 1 January 2019**	**1,349**	**1,349**
	Additions	493	493
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 30 June 2019**	**1,842**	**1,842**
5.	**Net value at the beginning of the period 1 January 2019**	**8,837**	**8,837**
6.	**Net value at the end of the period 30 June 2019**	**9,753**	**9,753**

(*) balance sheet measurement of the costs of development work, calculated by translating the carrying amount to the presentation currency, i.e. the functional currency of the Parent Company, is presented in the table above in additions or reductions of the gross value.

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

No.	Item	Costs of development work (*)	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**8,656**	**8,656**
	Additions, including:	2,117	2,117
	– expenditures incurred	2,117	2,117
	Reductions, including:	587	587
	– liquidation and sale	-	-
	– foreign exchange differences from measurement in presentation currency	587	587
2.	**Gross value at the end of the period 31 December 2018**	**10,186**	**10,186**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**732**	**732**
	Additions	617	617
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 31 December 2018**	**1,349**	**1,349**
5.	**Net value at the beginning of the period 1 January 2018**	**7,924**	**7,924**
6.	**Net value at the end of the period 31 December 2018**	**8,838**	**8,838**

(*) balance sheet measurement of the costs of development work, calculated by translating the carrying amount to the presentation currency, i.e. the functional currency of the Parent Company, is presented in the table above in additions or reductions of the gross value.

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

No.	Item	Costs of development work (*)	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**8,656**	**8,656**
	Additions, including:	814	814
	– expenditures incurred	814	814
	Reductions, including:	590	590
	– liquidation and sale	-	-
	– foreign exchange differences from measurement in presentation currency	590	590
2.	**Gross value at the end of the period 30 June 2018**	**8,880**	**8,880**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**732**	**732**
	Additions	320	320
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 30 June 2018**	**1,052**	**1,052**
5.	**Net value at the beginning of the period 1 January 2018**	**7,924**	**7,924**
6.	**Net value at the end of the period 30 June 2018**	**7,828**	**7,828**

(*) balance sheet measurement of the costs of development work, calculated by translating the carrying amount to the presentation currency, i.e. the functional currency of the Parent Company, is presented in the table above in additions or reductions of the gross value.

The Group has development work not yet completed, with a limited right-of-use, described in Note 40.

Note 2.1 Other intangible assets

Other intangible assets	30.06.2019	31.12.2018	30.06.2018
Other intangible assets (computer software)	16	18	0
Total	**16**	**18**	**0**

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

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of other intangible assets.

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset.

The amortization rates are determined on the basis of the anticipated useful life of other intangible assets.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

Note 2.2 Changes in other intangible assets, by type

No.	Item	Other intangible assets	Total
1.	**Gross value at the beginning of the period 1 January 2019**	**578**	**578**
	Additions	-	-
	Reductions	-	-
2.	**Gross value at the end of the period 30 June 2019**	**578**	**578**
3.	**Accumulated depreciation at the beginning of the period 1 January 2019**	**560**	**560**
	Additions	2	2
	Reductions	-	-
4	**Accumulated depreciation at the end of the period 30 June 2019**	**562**	**562**
5	**Net value at the beginning of the period 1 January 2019**	**18**	**18**
6	**Net value at the end of the period 30 June 2019**	**16**	**16**

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

No.	Item	Other intangible assets	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**557**	**557**
	Additions	21	21
	Reductions	-	-
2.	**Gross value at the end of the period 31 December 2018**	**578**	**578**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**557**	**557**
	Additions	3	3
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 31 December 2018**	**560**	**560**
5.	**Net value at the beginning of the period 1 January 2018**	**-**	**-**
6.	**Net value at the end of the period 31 December 2018**	**18**	**18**

No.	Item	Other intangible assets	Total
1.	**Gross value at the beginning of the period 1 January 2018**	**557**	**557**
	Additions, including:	-	-
	Reductions, including:	-	-
2.	**Gross value at the end of the period 30 June 2018**	**557**	**557**
3.	**Accumulated depreciation at the beginning of the period 1 January 2018**	**557**	**557**
	Additions	-	-
	Reductions	-	-
4.	**Accumulated depreciation at the end of the period 30 June 2018**	**557**	**557**
5.	**Net value at the beginning of the period 1 January 2018**	**-**	**-**
6.	**Net value at the end of the period 30 June 2018**	**-**	**-**

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

The Group has no intangible assets used under lease agreements.

The Group has no intangible assets with restricted use rights.

The Group has no bank loans that would be secured with intangible assets.

As at 30 June 2019 and 30 June 2018, there were no contractual obligations related to the purchase of intangible assets.

Note 2.3 Ownership structure of other intangible assets

Intangible assets	30.06.2019	31.12.2018	30.06.2018
Owned	16	18	-
Third party	-	-	-
Total	**16**	**18**	**-**

Note 3.1 Property, plant and equipment

Property, plant and equipment	30.06.2019	31.12.2018	30.06.2018
a) fixed assets, including:	44	57	50
land	-	-	-
buildings and structures	9	10	10
plant and machinery	33	41	34
means of transport	-	-	-
other fixed assets	2	6	6
b) fixed assets under construction	-	-	6
Total	**44**	**57**	**56**

The Group has no property, plant and equipment used under finance lease agreements. Information about fixed assets used on the basis of lease agreements is presented in Note 3.4 and 38. The Group has no land in perpetual usufruct. The Group has no property, plant and equipment with restricted property and use rights. The depreciation expenses non-current assets in 2018-2019 were charged to general and administrative expenses or capitalized in the value of development work, depending on the purpose of non-current assets.

As at 30 June 2019 and 30 June 2018, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 30 June 2019 and 30 June 2018, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

Estimates:

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

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset.

The amortization rates are determined on the basis of the anticipated useful life of property, plant and equipment components.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates.

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

Note 3.2 Changes in property, plant and equipment, by type

No.	Item	Own land	Buildings and structures	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2019**	**-**	**22**	**230**	**-**	**38**	**-**	**290**
	Additions, including:	-	1	9	-	1	-	11
	acquisition	-	-	9	-	1	-	10
	foreign exchange differences from measurement in presentation currency	-	1	-	-	-	-	1
	Reductions, including:	-	-	5	-	5	-	10
	liquidation and sale	-	-	3	-	-	-	3
	foreign exchange differences from measurement in presentation currency	-	-	2	-	5	-	7
2.	**Gross value as at 30.06.2019**	**-**	**23**	**234**	**-**	**34**	**-**	**291**
3.	**Accumulated depreciation 01.01.2019**	**-**	**14**	**187**	**-**	**32**	**-**	**233**
	Additions	-	-	17	-	-	-	17
	Reductions	-	-	3	-	-	-	3
4.	**Accumulated depreciation 30.06.2019**	**-**	**14**	**201**	**-**	**32**	**-**	**247**
5.	**Net value as at 1 January 2019**	**-**	**8**	**43**	**-**	**6**	**-**	**57**
6.	**Net value as at 30 June 2019**	**-**	**9**	**33**	**-**	**2**	**-**	**44**

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

No.	Item	Own land	Buildings and structures	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2018**	**-**	**23**	**174**	**-**	**30**	**7**	**234**
	Additions, including:	-	-	58	-	8	-	66
	acquisition	-	-	58	-	1	-	59
	internal relocation	-	-	-	-	7	-	7
	Reductions, including:	-	1	2	-	-	7	10
	liquidation and sale	-	-	2	-	-	-	2
	internal relocation	-	-	-	-	-	7	7
	foreign exchange differences from measurement in presentation currency	-	1	-	-	-	-	1
2.	**Gross value as at 31.12.2018**	**-**	**22**	**230**	**-**	**38**	**-**	**290**
3.	**Accumulated depreciation 01.01.2018**	**-**	**11**	**137**	**-**	**24**	**-**	**172**
	Additions	-	3	50	-	8	-	61
	Reductions	-	-	-	-	-	-	-
4.	**Accumulated depreciation 31.12.2018**	**-**	**14**	**187**	**-**	**32**	**-**	**233**
5.	**Net value as at 1 January 2018**	**-**	**12**	**37**	**-**	**6**	**7**	**62**
6.	**Net value as at 31 December 2018**	**-**	**8**	**43**	**-**	**6**	**-**	**57**

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

No.	Item	Own land	Buildings and structures	Plant and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
1.	**Gross value as at 1 January 2018**	**-**	**23**	**174**	**-**	**30**	**7**	**234**
	Additions, including:	-	-	22	-	-	-	22
	acquisition	-	-	22	-	-	-	22
	Reductions	-	2	2	-	-	1	5
	foreign exchange differences from measurement in presentation currency	-	2	2	-	-	1	5
2.	**Gross value as at 30 June 2018**	**-**	**22**	**194**	**-**	**30**	**6**	**251**
3.	**Accumulated depreciation 01.01.2018**	**-**	**11**	**137**	**-**	**24**	**-**	**172**
	Additions	-	1	23	-	-	-	24
	Reductions	-	-	-	-	-	-	-
4.	**Accumulated depreciation 30.06.2018**	**-**	**12**	**160**	**-**	**24**	**-**	**196**
5.	**Net value as at 1 January 2018**	**-**	**12**	**37**	**-**	**6**	**7**	**62**
6.	**Net value as at 30 June 2018**	**-**	**10**	**34**	**-**	**6**	**6**	**56**

Note 3.3 Ownership structure of property, plant and equipment

Property, plant and equipment	**30.06.2019**	**31.12.2018**	**30.06.2018**
Owned	44	57	56
Third party	-	-	-
Total	**44**	**57**	**56**

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

Note 3.4 Value of fixed assets not depreciated by the Group, used under operating lease, rental and other similar agreements and value of land in perpetual usufruct

As at 31 December 2018 and 30 June 2018, the subsidiaries, i.e. Silvair Sp. z o.o. and Sway Sp. z o.o, were parties to a lease agreement for a property in Kraków at ul. Jasnogórska. As at the date of preparation of the Group's consolidated financial statements for 2018 and interim consolidated financial statements for H1 2018, the agreement did not fulfill the criteria of IAS 17 for recognizing it in the Group's statement of financial position as a lease. As at the reporting date of 30 June 2019, the Issuer extended the agreements to the end of 2020 and thus changed the balance sheet classification of the agreements and presented them pursuant to IFRS 16. The information about the change of the presentation is described in the section Accounting policy of these statements. The information about the agreements is presented in Note 38. Related party transactions.

Note 3.5 Production costs of fixed assets under construction and fixed assets for own use.

In the period from 1 January to 30 June 2019 and in the comparable period of 2018, the Group did not incur costs for the production of fixed assets for its own use.

Note 3.6 Expenditures on non-financial non-current assets and on environmental protection, incurred last year and planned for the next year

Item	Value in the period of 01.01.2019 – 30.06.2019	Value in the period of 01.01.2018 – 31.12.2018	Value in the period of 01.01.2018 – 30.06.2018
Expenditures incurred on property, plant and equipment	10	87	22
Expenditures incurred on intangible assets	1,333	2,117	813
Total	**1,343**	**2,204**	**835**

In 2019, the Group intends to incur expenditures (outlays) on intangible assets at a level comparable to 2018. In the period from 1 January to 30 June 2019 and in the comparable period of 2018, the Group did not incur expenditures for environmental protection. The Group does not intend to make any environmental protection expenditures in 2019.

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

Note 3.7 Right-of-use assets

Right-of-use assets	30.06.2019	31.12.2018	30.06.2018
Real estate right-of-use asset	250	-	-
Other assets	-	-	-
Total	**250**	**-**	**-**

Since the entire right-of-use asset pertains to one category (lease of premises), the changes are presented without a category breakdown.

No.	Item	01.01.2019 – 30.06.2019	01.01.2018 – 31.12.2018	01.01.2018 – 30.06.2018
1.	**Gross value at the beginning of the period**	**-**	**-**	**-**
	Additions, including:	-	-	-
	acquisition	-	-	-
	internal relocation	332	-	-
	Reductions, including:	-	-	-
	liquidation and sale	-	-	-
	foreign exchange differences from measurement in presentation currency	-	-	-
2.	**Gross value at the end of the period**	**332**	**-**	**-**
3.	**Accumulated depreciation at the beginning of the period**	**-**	**-**	**-**
	Additions	82	-	-
	Reductions	-	-	-
4.	**Accumulated depreciation at the end of the period**	**82**	**-**	**-**
5.	**Net value at the beginning of the period**	**-**	**-**	**-**
6.	**Net value at the end of the period**	**250**	**-**	**-**

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

Note 4 Financial assets (long-term)

Financial assets (long-term)	**30.06.2019**	**31.12.2018**	**30.06.2018**
In related entities	-	-	7
In other entities	7	7	-
Total	**7**	**7**	**7**

Silvair Sp. z o.o. holds a stake in S-Labs Sp. z o.o. with its registered office in Kraków.

Note 5 Deferred tax assets

Deferred tax assets	**30.06.2019**	**31.12.2018**	**30.06.2018**
Deferred tax assets – at the beginning of the period, including:	**620**	**185**	**185**
through profit or loss	620	185	185
through equity	-	-	-
Additions	**197**	**435**	**266**
through profit or loss	197	435	266
through equity	-	-	-
Reductions	**182**	**-**	**-**
through profit or loss	182	-	-
through equity	-	-	-
Deferred tax assets at the end of the period, including:	**634**	**620**	**452**
through profit or loss	634	620	452
through equity	-	-	-

Deferred tax assets arising from temporary differences resulting from:	**30.06.2019**	**31.12.2018**	**30.06.2018**
Accumulated tax losses to be used	9,106	8,084	7,221
Impairment losses on deferred tax assets up to the amount of tax losses available for use in the future (calculation based on the financial budget)	-5,767	-4,823	-4,844
Total	**3,339**	**3,261**	**2,378**
Deferred tax assets (19%)	**634**	**620**	**452**

Deferred tax assets are treated in entirety as non-current assets and are not subject to discounting.

Deferred tax assets are calculated using tax rates that are expected to be effective at the time of realization of particular asset, based on tax rates (and tax legislation) using tax rates enacted or substantively enacted at the balance sheet date.

The Company evaluates as at each balance sheet date the possibility of realization of the deferred tax asset. This assessment requires a professional judgment and estimates regarding, among others, future tax results. The analysis of anticipated tax revenues has shown a limited possibility of settling the full tax loss in 2017 therefore the Group has made a decision to recognize an additional impairment loss for the deferred tax asset. The adopted assumptions regarding the probability of realization of revenues by the Group in individual years justify the keeping of the asset on the presented level.

Regulations regarding corporate income tax are subject to frequent changes, as a result of which there is often no reference to well-established line of rulings. The prevailing regulations are not always unambiguous, which additionally leads to differences in their interpretation. Tax settlements are subject to audits by tax authorities. If irregularities are identified in the tax settlements the taxpayer is obligated to pay the overdue amount together with the statutory interest due. Payment of overdue liabilities does not always release the taxpayer from criminal tax liability. As a result of the aforementioned phenomena tax settlements are burdened with risk. Tax settlements may be subject to audit within a period of five years from the end of the year in which the tax returns were submitted. As a result, the amounts reported in the financial statements, and thus the basis for calculation of the asset on tax losses and the asset itself, may change at a later date after their final determination by the tax authorities.

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

Note 6 Inventory

Inventory	30.06.2019	31.12.2018	30.06.2018
Materials in processing (own entrusted for testing)	5	5	4
Goods for resale	47	42	43
Impairment loss on merchandise	-34	-34	-
Total	**18**	**13**	**47**

Inventory releases are recognized using the detailed identification method. As at each balance sheet date the Company analyzes whether the carrying amount of inventory is higher than or equal to the realizable sales price. Impairment losses on the inventory are recognized in operating expenses. In 2018, USD 34 thousand worth of inventory was covered in full by an impairment loss. As at 30 June 2019, the level of the loss remained on the 31 December 2018 level. In the corresponding period, as 30 June 2018, no impairment losses were recognized on the Group's inventory.

Note 7 Trade receivables

Trade receivables	30.06.2019	31.12.2018	30.06.2018
From related entities	-	-	-
From other entities	87	49	51
Impairment losses	-29	-29	-29
Total	**58**	**20**	**22**

Note 7.1 Impairment losses on trade receivables

As at 30 June 2019, impairment losses on trade receivables amounted to USD 29 thousand. As at 31 December 2018 and 30 June 2018, impairment losses on trade receivables also amounted to USD 29 thousand.

Estimates:

To estimate the impairment losses on trade receivables, the Group applies the individual approach to each customer. Since the Issuer's sales revenues appeared in material amounts only in H1 2019, there is no possibility of relying on the provisions matrix prepared on the basis of historical data regarding repayment of receivables by business partners. The estimates were based on such parameters asdelay time, and position and reliability of the business partner in the market.

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

Note 7.2 Aging of trade receivables

Trade receivables	**30.06.2019**	**31.12.2018**	**30.06.2018**
not overdue	56	20	22
Overdue, incl.:			
up to one month	-	-	-
over 1 month to 3 months	1	-	-
over 3 months to 6 months	1	-	-
over 6 months to 1 year	3	-	-
over 1 year	26	29	29
impairment losses on receivables	-29	-29	-29
Trade receivables	**58**	**20**	**22**
of which overdue (gross)	31	29	29

Note 8.1 Other receivables

Other receivables	**30.06.2019**	**31.12.2018**	**30.06.2018**
On taxes and other public benefits	156	131	149
Other receivables	15	9	2
Impairment losses	-	-	-
Total	**171**	**140**	**151**

Note 8.2 Impairment losses on other receivables

As at 30 June 2019, 31 December 2018 and 30 June 2018, the Group did not recognize any impairment losses on other short-term receivables.

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

Note 9 Prepayments and accruals

Prepayments and accruals	30.06.2019	31.12.2018	30.06.2018
Fees for fairs and conferences	13	22	-
IT services	5	9	-
Other	5	-	25
Total	**23**	**31**	**25**

In accruals the Group presents expenditures which pertain to future periods incurred before the balance sheet date. Prepayments and accrued income as at 30 June 2019 and as at the end of the comparable period comprised mainly the costs of prepaid participation in fairs and conferences associated with presentation of the Group's activity and license fees to be incurred in the profit and loss account successively in future periods.

Note 10 Financial assets (short-term)

Financial assets (short-term)	30.06.2019	31.12.2018	30.06.2018
in related entities	-	-	-
in other entities	-	-	-
Total	**-**	**-**	**-**

Note 11 Cash and cash equivalents

Cash and cash equivalents	30.06.2019	31.12.2018	30.06.2018
Cash on hand	1	1	1
Cash in bank	1,027	1,337	1,085
Bank deposits	-	1,995	-
Total	**1,028**	**3,333**	**1,086**

Note 11.1 Explanation o selected items of the statement of cash flows

The line item Other adjustments resulting from operating activity shows the value charged to the general and administrative expenses corresponding to the value of accrued option capital.

Note 12 Share capital

Share capital of the Parent Company as at 30 June 2019.

Type	Number of shares	Par value (USD ’000s)	Share subscription price (USD ’000s)	Share premium account (USD ’000s)
Common Stock	10,460,670	1,046	20,261	19,218
Preferred Stock	960,000	96	125	29
Total	**11,420,670**	**1,142**	**20,386**	**19,247**

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

Share capital ownership structure	Number of shares	% of shares	Number of votes (1)	% of votes
Funds managed by Lartiq TFI (2)	2,213,781	19.39	2,213,781	13.65
Szymon Słupik	1,884,711	16.50	3,529,871	21.76
Rafał Han	1,296,441	11.35	2,928,441	18.05
Adam Gembala	1,018,760	8.92	2,145,520	13.23
Other shareholders holding less than 5% of shares	5,006,977	43.84	5,403,057	33.31
Total	**11,420,670**	**100.00**	**16,220,670**	**100.00**

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

(2) Lartiq TFI – Venture FIZ and other funds managed by Lartiq TFI (change of the name of the Trigon fund)

On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the 2016 Stock Plan described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). As a result of the Issue, the Company's share capital is PLN 1,142,067 and consists of 11,420,670 shares with a par value of USD 0.1 each, including 10,460,670 Common Shares and 960,000 shares of the Founders Preferred Stock, representing 16,220,670 votes at the Company's shareholder meeting, of which 10,460,670 are votes attaching to the Common Shares and 5,760,000 are votes attaching to the Preference Founder Shares. After the Issue, the total number of the Company's common shares remaining to be issued under the Stock Plan is 250,750 shares. The contract between the Company and its consultant provides for the granting of 2,300 shares on each 18th day of the month following 18 February 2019 up until and inclusive of 18 July 2020 as well as 1,150 shares on 30 July 2020 if the consultant maintains the Continuous Service Status within the meaning of the contract as at the date of granting the shares in question. In H1 2019 there was no issue, redemption or repayment of non-equity and equity securities. As at 30 June 2019, 9,200 shares were allocated to the Consultant.

As at 30 June 2019, out of the 11,420,670 issued shares, 11,389,620 shares were paid up in full, and 31,050 shares were not paid up.

Share capital of the Parent Company as at 31 December 2018

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**

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

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

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, which is discussed in Note 17 – totaling 4,724.00 shares of common stock, (ii) 4,063,495 common bearer shares created as a result of the conversion of 4,063,495 shares of Series A Preferred Stock, and (iii) 448,015 new common bearer shares of the Company, which were issued by the Company upon conversion of 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.

As at 31 December 2018, out of the 11,380,420 issued shares, all shares were paid up in full.

Share capital as at 30 June 2018

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

Type	Number of shares	Par value (USD ’000s)	Share subscription price (USD ’000s)	Share premium account (USD ’000s)
Common Stock	4,724,000	473	473	0
Preferred Stock	960,000	96	125	29
Series A Preferred Stock (Trigon)	1,500,000	150	4,995	4,845
Series A Preferred Stock (Convertible Notes)	2,563,495	256	7,141	6,884
Total	**9,747,495**	**975**	**12,734**	**11,758**

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

Share capital ownership structure	Number of shares	% of shares	Number of votes	% of votes
Szymon Słupik	1,884,711	19.34	3,529,871	24.29
Rafał Han	1,296,441	13.30	2,928,441	20.15
Funds managed by Trigon	1,248,243	12.81	1,248,243	8.59
Adam Gembala	1,018,760	10.45	2,145,520	14.76
Onico S.A.	574,712	5.90	574,712	3.95
Other shareholders holding less than 5% of shares	3,724,628	38.20	4,105,708	28.25
Total	**9,747,495**	**100.00**	**14,532,495**	**100.00**

As at 30 June 2018, out of the 9,747,495 issued shares, all shares were paid up in full.

Note 13 Capital from revaluation of options

Capital from revaluation of options	30.06.2019	31.12.2018	30.06.2018
Valuation of stock options under IFRS 2	273	155	69
Total	**273**	**155**	**69**

Information about changes in the accrual of the capital from revaluation of options as at 30 June 2018 was presented in the section: Corrections of prior period errors.

Note 14.1 Other capital

Other capital	30.06.2019	31.12.2018	30.06.2018
Supplementary capital	21,181	21,147	16,652
Total	**21,181**	**21,147**	**16,652**

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

Note 14.2 Changes in other capital

In the period from 1 January 2019 to 30 June 2019:

Changes in other capital	Other capital
As at 1 January 2019	**21,147**
Exercise of stock options for Company shares	38
Expenditures incurred in connection with the stock issue	-
Issue of new shares (IPO)	-
Unpaid capital which has been called up	-4
Issue of bonds convertible to shares	-
As at 30 June 2019	**21,181**

In the period from 1 January 2018 to 31 December 2018:

Changes in other capital	Other capital
As at 1 January 2018	**15,286**
Exercise of stock options for Company shares	34
Expenditures incurred in connection with the stock issue	-924
Issue of new shares (IPO)	5,325
Issue of bonds convertible to shares	1,426
As at 31 December 2018	**21,147**

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

In the period from 1 January 2018 to 30 June 2018:

Changes in other capital	Other capital
As at 1 January 2018	**15,286**
Exercise of stock options for Company shares	34
Expenditures incurred in connection with the planned stock issue	-138
Issue of bonds convertible to shares	1,470
As at 30 June 2018	**16,652**

Note 15 Retained earnings

Retained earnings	30.06.2019	31.12.2018	30.06.2018
Accumulated losses brought forward	-12,573	-9,814	-9,831
Total	**-12,573**	**-9,814**	**-9,831**

The changes in the retained earnings as at 30 June 2018 result from the accrual of the capital from revaluation of options. Information about the restatements was presented in the section: Corrections of prior period errors.

Note 16 Earnings (loss) per share

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

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

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

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

Earnings/(loss) per share in the period covered by the financial statements:	30.06.2019	31.12.2018	30.06.2018
Weighted average number of Parent Company's shares in the period	11,400,545	10,556,458	9,747,495
Number of diluting options	528,750	569,000	569,000
Weighted average number of Parent Company's shares in the period after diluting options	1,527,377	10,503,726	10,095,495
Continuing operations			
Earnings/(loss) per share (USD)	**-0.14**	**-0.26**	**-0.17**
Diluted earnings/(loss) per share (USD)	**-0.14**	**-0.26**	**-0.16**
Discontinued operations			
Earnings/(loss) per share (USD)	-	-	-
Diluted earnings/(loss) per share (USD)	-	-	-
Discontinued operations			
Earnings/(loss) per share (USD)	**-0.14**	**-0.26**	**-0.17**
Diluted earnings/(loss) per share (USD)	**-0.14**	**-0.26**	**-0.16**

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

Note 17 Deferred tax liabilities

Deferred tax liability	30.06.2019	31.12.2018	30.06.2018
Deferred tax liabilities at the beginning of the period, including:	**28**	**33**	**33**
through profit or loss	28	33	33
through equity	-	-	-
Additions:	-	-	-
through profit or loss	-	-	-
through equity	-	-	-
Reductions:	**2**	**5**	**2**
through profit or loss	2	5	2
through equity	-	-	-
Deferred tax liabilities at the end of the period, including:	**26**	**28**	**31**
through profit or loss	26	28	31
through equity	-	-	-

Deferred tax liabilities arising from temporary differences resulting from:	30.06.2019	31.12.2018	30.06.2018
Difference between the tax value and carrying amount of completed development work	137	147	163
Total	**137**	**147**	**163**
Deferred tax liabilities (19%)	**26**	**28**	**31**

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

Note 18 Other liabilities (non-current)

Other liabilities	30.06.2019	31.12.2018	30.06.2018
PARP loan	79	137	211
Other loans from other entities	-	-	-
Total	**79**	**137**	**211**

Note 18.1 Liabilities under leases

Lease liabilities	30.06.2019	31.12.2018	30.06.2018
non-current	86	-	-
current	166	-	-
Total	**252**	**-**	**-**

The lease liability pertains to real property lease agreements which, pursuant to IFRS 16, have been classified to lease liabilities. A detailed description is presented in the description of Accounting policy IFRS 16.

Valuation of liabilities does not comprise variable fees for consumption of utilities associated with the use of the real properties.

Repayment of the interest part in the reporting period amounted to USD 5 thousand.

In the Issuer’s opinion, as at the publication date, in the future there will be no cash outflows to which the lessee would be exposed and which are not included in the valuation of lease liabilities.

The agreements do not contain limitations or covenants imposed by the lessor.

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

Note 19.1 Trade liabilities

Other liabilities	30.06.2019	31.12.2018	30.06.2018
To related entities	-	-	-
To other entities	225	172	220
Total	**225**	**172**	**220**

Note 19.2 Aging of trade liabilities

Trade liabilities	30.06.2019	31.12.2018	30.06.2018
up to one month	123	128	220
over 1 month to 3 months	-	-	-
over 3 months to 6 months	26	15	-
over 6 months to 1 year	-	28	-
over 1 year	-	-	-
Overdue, incl.:			
up to one month	26	-	-
over 1 month to 3 months	19	-	-
over 3 months to 6 months	6	-	-
over 6 months to 1 year	25	-	-
over 1 year	-	-	-
Total	**225**	**172**	**220**

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

Note 20.1 Other liabilities (current)

Other current liabilities	30.06.2019	31.12.2018	30.06.2018
To related entities	-	-	-
To other entities, including:	323	318	308
on loans	135	134	134
on taxes and other public benefits	103	96	90
on payroll	80	88	84
other	5	-	-
Total	**323**	**318**	**308**

Note 20.2 Contingent liabilities, including guarantees and sureties extended by the Group, e.g. promissory notes

In order to secure the loan granted by PARP in the amount of PLN 2.0 million with the outstanding balance of PLN 789 million (USD 214 thousand) as at 30 June 2019, PLN 1.05 million (USD 279 thousand) as at 31 December 2018 and PLN 1.3 million (USD 348 thousand) as at 30 June 2018, Sway Sp. z o.o. issued a blank promissory note.

Except for that promissory note, as at 30 June 2019 and as at 30 June 2018, the Group had no other contingent liabilities. As at 30 June 2019 and 30 June 2018, 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.

Note 20.3 Other short-term provisions

The Group recognizes a "provision" for unused vacation time, which pertains to periods preceding the balance sheet date and will be used in the future for all Company employees, because in the Polish system unused vacation time constitutes cumulative paid absences (the entitlement to such absences passes on to future periods and can be used if it has not been used in the current period). The amount of the provision depends on the monthly salary and number of unused days of vacation time to which the employee is entitled as at the balance sheet date. The Company recognizes the costs of unused vacation time on the accrual basis, based on the estimate values, and presents them in the profit and loss account in the payroll line item (in accordance with the place where they occur). The provision for unused vacation time is a short-term provision and is not subject to discounting.

On 2 June 2019, F2VS Technologies, Inc. with its registered office in the US (hereinafter: F2VS) filed a statement of claim against Silvair, Inc. The proceedings pertain to an allegation that the Company breached F2VS's patents. The litigation is conducted by a Delaware court (DISTRICT COURT FOR THE DISTRICT OF DELAWARE, USA) under the

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

US law. F2VS moved for discontinuation of the breach by the Company and a compensation in an unspecified amount. Based on the facts of the case, the Company is of the position that its products and services do not breach the plaintiff's patents. Consequently, in the Company's opinion, the probability of winning the dispute by the Company, is high. Considering this, on 3 September 2019 the Company submitted its statement of defense, denying the breaches and moved for dismissing F2VS's statement of claim in entirety. Nonetheless, considering the time and potential costs of the court proceedings in the USA, the parties have embarked on negotiations to conclude a settlement. The Company put forward a settlement proposal in the amount of USD 10,000. Considering the current facts of the case, in the opinion of the Management Board, it seems justified to recognize a provision on the level of the proposed settlement.

Other short-term provisions	**30.06.2019**	**31.12.2018**	**30.06.2018**
Provision for unused vacation time	65	52	-
Provisions for disputes	10		
Total	**75**	**52**	**-**

Provision for unused vacation time	**30.06.2019**	**31.12.2018**	**30.06.2018**
As at the beginning of the period	**52**	**-**	**-**
Additions	13	52	
Reductions	-	-	
End of the period	**65**	**52**	**-**

Estimates:

The Group estimates the amount of the provisions on the basis of adopted assumptions and methodology, assessing the probability of spending the funds comprising economic benefits and classifies amounts with a high probability of spending, as at the balance sheet, as liabilities.

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

Note 20.4 Liabilities from contracts with customers

Liabilities from contracts with customers	Value as at 1 January 2019	Additions	Reductions	Value as at 30 June 2019
Maintenance services for the Silvair Platform	-	50	10	40
Maintenance services for the Silvair Mesh Stack	-	2	1	1
Total	**-**	**52**	**11**	**41**

As at 30 June 2019, the Group identified liabilities associated with maintenance agreements according to the description in section Operating revenues in the Explanatory notes to the financial statements and Note 23.

The Group settles the identified performance obligations using the straight-line method, spread evenly over time, as the activities are performed evenly throughout the entire period of performance.

As at 31 December 2018 and as at 30 June 2018, there were no liabilities from contracts with customers.

Note 21 Prepayments and accruals

Prepayments and accruals	Value as at 1 January 2019	Additions	Reductions	Value as at 30 June 2019
Financing under the Smart Growth Operational Programme	448	34*	-	482
NCBiR subsidy for fixed assets	614	0	59	555
Total	**1,062**	**34**	**59**	**1,037**

* the addition results from translation PLN to USD.

Prepayments and accruals	Value as at 1 January 2018	Additions	Reductions	Value as at 31 December 2018
Financing under the Smart Growth Operational Programme	-	448	-	448
NCBiR subsidy for fixed assets	616	109	111	614
Total	**616**	**557**	**111**	**1,062**

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

Prepayments and accruals	Value as at 1 January 2018	Additions	Reductions	Value as at 30 June 2018
Provision for costs of services rendered in the financial year but billed in the next year	-	-	-	-
NCBiR subsidy for fixed assets	616	465	36	1,045
Total	**616**	**465**	**36**	**1,045**

Note 22.1 Sales revenues

Sales revenues	Financial period ended 30 June 2019	Financial period ended 30 June 2018
Revenues from sales of products	52	-
Revenues from sales of goods and services	62	1
Total	**114**	**1**

For the first time in 2019, the Group recorded revenues from sales of products and services, which are to become the main source of revenues. These are revenue from contracts with customers:

- Commissioning Service Agreement (CSA), consisting in delivery of a web application and a mobile application for activation and control of lighting management software.
- Supply, License and Service Agreement (SLS), where, on the basis of a license agreement, the Group delivers firmware for wireless lighting control, hardware for downloading software, and software service and maintenance.

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

Breakdown of revenues from contracts with customers:

Contract type					
Product/service type	**Fee type**	**CSA agreements**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	one-off	-	28	1	29
Activation	one-off	23	-	-	23
Development	one-off	46	-	-	46
Maintenance	periodic	13	3	-	16
Total	**-**	**82**	**31**	**1**	**114**
Delivery date	-				
At the time	-	69	28	1	98
Over time	-	13	3	-	16
Total	**-**	**82**	**31**	**1**	**114**

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for activation and control of the lighting management software for and on behalf of the Partner. Under these services it is also possible to provide the Silvair platform for lighting without the firmware developed by Silvair. Revenues from CSA agreements constitute a separate operating segment presented in the Silvair Platform category.

Under **Supply, License and Service Agreements (SLS)**:

- A product in the form of firmware for wireless lighting control is delivered. The software is downloaded from the cloud via the Internet and is installed on components manufactured by the Partner. The software is delivered on the basis of a license.
- In addition, hardware is delivered for installation of the Silvair MaTE software, which is connected on the production line to the Partner's computer (making it possible to download activation keys for the software and installation of the firmware from the cloud in the Partner's components).
- Software service and maintenance is guaranteed.

Revenues from SLS agreements constitute a separate operating segment presented as the Silvair Mesh Stack.

Revenues broken down by segment and description of the segments are presented in Note 23.

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

Estimates:

In the case of obligations performed over time (service and maintenance), the Group used the straight-line method to recognize revenues, pro rata to the elapse of time. The Group's actions and expenditures are executed evenly throughout the entire period of performance.

In the case of revenues recognized at the time, the Group has made a judgment that the licenses offered under SLS agreements have the nature of a license with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer. In the case of granting access to the Silvair platform the Group estimated that the benefits are transferred at the time of activation of access to the platform for each connected device.

Note 22.2 Sales revenues – geographic structure

Sales revenues	Period ended 30 June 2019	Period ended 30 June 2018
Revenues from sales of products	**52**	**-**
domestically	1	-
within the European Union	39	-
in third countries	12	-
Revenues from sales of goods and services	**62**	**1**
domestically	-	1
within the European Union	28	-
in third countries	34	-
Total	**114**	**1**

Information on sales revenues in 2019 – main buyers

In the Silvair Platform and Silvair Mesh Stack segments, in H1 2019, the Group generated sales exceeding 10% of consolidated revenues in cooperation with three buyers:

- buyer A: 31.3% of the Group's total consolidated sales revenues,
- buyer B: 25.8% of the Group's total consolidated sales revenues,
- buyer C: 23.9% of the Group's total consolidated sales revenues.

The buyers listed above are not affiliates or subsidiaries of Silvair, Inc. Except for these buyers, there was one more external buyer that has exceeded the threshold of 10% of the Group's consolidated revenues.

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

Information on sales revenues in 2019 – geographic structure

Country	Sales to external customers	01.01.2019 – 30.06.2019
European Union of which Poland	USD	67
	%	59%
Other countries	USD	46
	%	40%
Total revenues	**USD**	**1**
	%	**1%**

Information on sales revenues – main buyers in H1 2018.

In H1 2018, the Group generated sales in the Proxi segment with one buyer.

The buyer is not an affiliate or subsidiary of Silvair, Inc.

Country	Sales to external customers	01.01.2018 – 30.06.2018
European Union of which Poland	USD	1
	%	100%
Other countries	USD	-
	%	0%
Total revenues	**USD**	**1**
	%	**100%**

Note 23 Operating segments

Pursuant to IFRS 8, an operating segment is a component of an entity that is a profit center, that has discrete financial information available, and whose results are reviewed regularly by the entity's chief operating decision maker for purposes of performance assessment and resource allocation.

The Silvair Inc. Group identifies the following 2 operating segments in its business activity:

- Silvair Platform
- Silvair Mesh Stack

The segments have been distinguished taking into account the uniqueness of the Group's activity and directions of development, the possibility of generating revenues by such segments in the long run. The Group has analyzed whether there is a significant possibility of allocating the costs and assigning assets to the distinguished segments.

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 digital platform segment, i.e. **Silvair Platform**, 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.

Since Wi-Home and Proxi will be no longer developed, the Management Board has made a decision not to distinguish them as separate segments. These segments are recognized in the Group's statements as "Other activity".

General and administrative expenses, selling and distribution expenses, other operating income and expenses, financing of the Group (including financial income and expenses) and income tax are not monitored on the segment level, hence these items are not allocated to segments. The Management Board does not analyze cash flows by segment either.

The table below presents the key figures reviewed by the chief decision maker in the Company.

Operating segments from 1 January 2019 to 30 June 2019, USD ’000s

Segment type	Silvair Platform	Silvair Mesh Stack	Other activities	Total
Revenues and expenses				
Sales to external customers	82	31	1	114
Inter-segment sales	-	-	-	-
Cost of sales	124	219	52	395
Income and expenses (operating and other operating)	-	-	-1,237	-1,237
EBIT	**-42**	**-188**	**-1,288**	**-1,518**
Net financial income (costs)	-	-	-56	-56
Share in profits of associates	-	-	-	-
Profit before tax	**-42**	**-188**	**-1,344**	**-1,574**
Income tax (current and deferred)	-	-	2	2
Net profit for the reporting period	**-42**	**-188**	**-1,342**	**-1,576**
Assets				
Costs of development work (carrying amount of assets)	2,775	4,532	2,446	9,753
Receivables	49	7	2	58
Unallocated assets	-	-	2,191	2,191
Total assets				**11,914**
Liabilities				
Financial liabilities	-	-	214	214
Liabilities from contracts with customers	40	1	-	41
Unallocated liabilities			**1,803**	**1,803**
Total liabilities				**2,058**
Other information	-	-	-	-
Depreciation and amortization	124	219	251	594

The Group does not allocate the following items to segments: general and administrative expenses, selling and distribution expenses, other operating income and expenses, financial income and expenses and income tax. These items are presented in other activities.

Operating segments from 1 January 2018 to 30 June 2018, USD '000s

Segment type	Silvair Platform	Silvair Mesh Stack	Other activities	Total
Revenues and expenses				
Sales to external customers	-	-	1	1
Inter-segment sales	-	-	-	-
Income and expenses (operating and other operating)	-	-	-1,746	-1,746
EBIT				**-1,745**
Net financial income (costs)	-	-	-179	-179
Share in profits of associates	-	-	-	-
Profit before tax				**-1,924**
Income tax (current and deferred)	-	-	-267	-267
Net profit for the reporting period				**-1,657**
Assets				
Costs of development work	1,570	3,932	2,802	7,828
Receivables	-	17	5	22
Unallocated assets	-	-	1,823	1,823
Total assets				**9,674**
Liabilities				
Financial liabilities	-	-	348	348
Unallocated liabilities	-	-	1,468	1,468
Total liabilities				**1,816**
Other information	-	-	-	-
Depreciation and amortization	9	146	190	345

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

In 2016-2018 and in 2019, the Silvair, Inc. Group focused all of its resources on completing the development work commenced in earlier years. The Silvair Group also worked on improving and expanding the functionalities of the development work completed in previous years and accepted for use.

In the period covered by the financial statements, the Group cooperated with external buyers, whose share in revenues exceeded 10% of the Group's revenues.

Information about segments broken down by region, product lines and recognition time.

Segment type					
		Silvair Platform	**Silvair Mesh Stack**	**Other activities**	**Total**
REGION					
European Union		49	18	-	67
Third countries		33	13	-	46
Poland		-	-	1	1
Total		**82**	**31**	**1**	114
Product/service type	**Fee type**				
Firmware license	one-off	-	28	1	29
Activation	one-off	23	-	-	23
Development	one-off	46	-	-	46
Maintenance	periodic	13	3	-	16
Total		**82**	**31**	**1**	**114**
Delivery date		-	-	-	-
At the time		69	28	1	98
Over time		13	3	-	16
Total		**82**	**31**	**1**	**114**

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

Note 24 Other operating income

Other operating income	**Period from 1 January 2019 to 30 June 2019**	**Period from 1 January 2018 to 30 June 2018**
Profit on the sale of non-financial non-current assets	-	-
Revaluation of non-financial assets	1	-
Other operating income	43	47
Total	**44**	**47**

Note 25 Other operating expenses

Other operating income	**Period from 1 January 2019 to 30 June 2019**	**Period from 1 January 2018 to 30 June 2018**
Revaluation of non-financial assets	-	-
Other operating expenses	24	3
Total	**24**	**3**

Out of the USD 24 thousand, USD 10 thousand are the costs of the provision recognized for the disputes described in Note 20.3.

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

Note 26 Breakdown of costs

Other operating income	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Depreciation and amortization	594	345
Consumption of materials and energy	32	55
External services	1,232	1,157
Taxes and fees	8	8
Payroll	720	691
Social security and other benefits	165	166
Other costs by nature	106	95
Cost of products and materials sold	-	-
Total costs by type	**2,857**	**2,517**
Movement in inventory of products and production cost of products for own use (development work)	**1,205**	**747**
Cost of sales	395	-
Selling and distribution expenses	237	260
General and administrative expenses	1,020	1,530
Total costs by function	**1,652**	**1,790**

Since the Company recognizes costs using the accrual method, some of the costs recognized in the profit and loss account are costs recognized as a result of estimations pertaining to, for example, expected costs associated with unused vacation time.

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

Note 27 Financial income

Financial income	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Interest, including:	**24**	**-**
Interest on bank deposits and accounts	24	-
Other financial income	5	-
Total financial income	**29**	**-**

Note 28 Financial costs

Financial income	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Interest	**15**	**15**
To other entities	15	15
Interest on received loans	10	15
Interest on lease agreements	5	-
Foreign exchange differences	70	164
Financial costs	**85**	**179**

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

Note 29 Reconciliation of the main items differentiating the income tax basis from the pre-tax financial result

Item	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Profit before tax	**-1,574**	**-1,991**
Costs not classified as tax-deductible expenses, including:	**269**	**669**
Depreciation and amortization	40	44
PFRON disability fund tax	6	7
Unpaid interest	-	39
Unpaid payroll and social security contributions	59	31
Foreign exchange differences in the balance sheet	8	171
Impairment losses	-	-
Other costs	156	377
– including valuation of stock options (Note 30)	118	147
Costs of the previous year recognized as tax-deductible expenses in the current year	**47**	**42**
ZUS from November-December of the previous year, paid in January of the next year	40	34
Other	7	9
Revenues that are not tax revenues	**54**	**66**
Unpaid interest	-	1
Foreign exchange differences in the balance sheet	22	29
Subsidy	32	35
Previous year revenues subject to taxation in the current year	-	-
Interest paid	-	-

Additions to income (income settled over time)	40	-
Income / loss	-1,366	-1,431
Deductions from income (*)	-	138
Taxation base	-1,366	-1,569
Tax – Parent Company	5	2
Impact of change in the deferred tax asset	14	266
Impact of movement in the deferred tax liability	2	2
Total charges to profit before tax	**11**	**266**

Note 30 Share-based payment agreements

Description of the agreements:

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

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

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

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

By 30 June 2019, options have been granted from the “Option Pool” for all the shares for the Management Board and Venture FIZ, as well as options for 90,000 out of 132,000 shares for the Key Personnel.

By 30 June 2019, all the options granted to the Management Board members and Venture FIZ have been exercised and in the Key Personnel pool, options for 45,000 shares will be exercised by 30 June 2019.

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

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

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

The Board of Directors has the powers to set the detailed terms and conditions for granting options from the "Additional Option Pool" to the Key Personnel, while the total number of shares taken up by employees in exercise of such granted options may not exceed 69,750 shares each year. The Board of Directors has the powers to set the detailed terms and conditions for granting options from the pool to the CEO Rafał Han, while the total number of shares taken up by the beneficiary may not exceed 50,750 shares each year.

By 30 June 2019, options have been granted from the "Additional Option Pool" for all the shares for Rafał Han, as well as options for 70,250 out of 279,000 shares for the Key Personnel.

By 30 June 2019, no options from Rafał Han's pool were exercised. On 8 March 2019, the Company issued 40,250 Common Restricted Shares with a par value of USD 0.1 each ("Issue") to a consultant as part of the Option Plan.

By 30 June 2019, options for 9,200 shares have been exercised in that pool. The Group considers the date of signing the KPI Agreement as the option grant date within the meaning of IFRS 2.

Number of options and strike price:

	from 1 January 2019 to 30 June 2019	from 1 January 2018 to 31 December 2018	from 1 January 2018 to 30 June 2018
Pool of shares under the Option Plan	1,453,000	1,453,000	1,453,000
Number of shares available under the Option Plan at the beginning of the period	**191,000**	**544,000**	**544,000**
Number of shares granted under option agreements	40,250	353,000	353,000
Number of shares taken up in exercise of the options	9,200	15,000	15,000
Number of shares available to be taken up in subsequent periods under option agreements	309,050	378,000	378,000
Number of shares released upon expiration of options	100,000	-	-
Number of shares available to be granted under further option agreements at the end of the period	**250,750**	**191,000**	**191,000**

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

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

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

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

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

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

	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Administrative expenses	166	30
Capital from revaluation of options	166	30

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

	Period from 1 January 2019 to 30 June 2019	Period from 1 January 2018 to 30 June 2018
Other capital	34	2,788
Capital from revaluation of options	-34	-2,788

The change in capital from revaluation of options in 2018 and in the period from 1 January 2018 to 30 June 2018 resulted from the exercise of options for 15,000 shares and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the period from 1 January to 31 December 2018 was USD 1.5 thousand.

The change in capital from revaluation of options in the period from 1 January 2019 to 30 June 2019 resulted from the exercise of options for 9,200 shares and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the reporting period was USD 0.9 thousand.

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

Note 31 Major events after the balance sheet date

The following material events occurred after the balance sheet date:

On 10 July 2019, Silvair Sp. z o.o. signed a strategic partnership agreement with OSRAM GmbH, leading player in the global lighting market. As part of the cooperation Silvair will provide its partner with the Silvair Firmware which can be integrated with a broad range of lighting products. The two companies also defined the terms on which OSRAM will use the Silvair Commissioning tools for configuration and management of smart lighting control networks based on the Bluetooth Mesh standard. Conclusion of the agreement is an important element of the Company's strategy pertaining to commercialization of its products and services on a global scale. Undertaking close technical and business cooperation with one of the biggest companies in the market opens a number of new opportunities for development and distribution of the solutions developed by Silvair. In addition, the signing of the agreement generates a number of image-related benefits, increasing the awareness of the Silvair brand and its credibility among manufacturers from the lighting industry.

On 8 August 2019, the Company's Board of Directors adopted a resolution to approve the incurring of a liability up to a total par value of USD 5.5 million in the form of convertible promissory notes ("Convertible Securities") and set the key terms of issue of the Convertible Securities.

As part of the total maximum issue amount approved by the Board of Directors, the issues of Convertible Securities have to be effected in the form of private placements without the registration obligation pursuant to the United States Securities Act of 1933 ("United States Securities Act") and without the obligation to prepare a prospectus or other offering document, in accordance with the Company's capital requirements. The resolution adopted by the Company's Board of Directors does not define the schedule or the deadline for Convertible Securities issues. In accordance with the decision of the Company's Board of Directors, the Convertible Securities bear interest at a fixed interest rate. The holders of Convertible Securities may demand their redemption after elapse of one year from the issue date ("Redemption Date"). In addition, with the consent of the holders of Convertible Securities representing a majority of the outstanding par value of the Convertible Securities, the Company may, according to the terms of the Convertible Securities, repay the liabilities resulting from the Convertible Securities before their Redemption Date. Notwithstanding the foregoing, Convertible Securities are due and payable in the cases defined in the terms of the Convertible Securities, including in particular submission of a petition for the Company's bankruptcy or petition for application of any remedy pursuant to the federal bankruptcy law and appointment of a commissioner or trustee to manage the Company's assets.

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

As at the date of preparation of these statements the Company issued Convertible Securities with the total par value of USD 1.412 million.

At the same time the Company continues preparations to raise financing through a new issue of the Company’s shares or other financial instruments, which the Company reported in Current Report No. 10 of 26 June 2019.

In the period from 1 July 2019 to the date of this report, Silvair, Inc. granted loans to its subsidiary Silvair Sp. z o.o. the total value of PLN 3.05 million, including PLN 2,660,000 and USD 100,000. In the period from 1 July 2019 to the date of this report, Silvair Sp. z o.o. granted loans to its subsidiary Sway Sp. z o.o. the total value of which was PLN 100.000.

Note 32 Information on joint ventures

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

Note 33 Financial risk management objectives and principles

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

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

Credit risk is the risk that one party to a financial instrument fails to discharge its obligation to the Group causing financial loss for the Group. Credit risk arises in receivables, cash and cash equivalents, deposits, bonds purchased and security deposits paid.

Impact of credit risk on the Group's main operating segments: production of software for remote communication between devices and smart lighting systems, due to its uniqueness, is not exposed to a significant level of this type of risk. Sales in these segments are largely to a stable client base and are made on deferred payment terms. However since the business partner pay the due amounts regularly, the exposure to individual credit risk is not high. The Group applies internal procedures and mechanisms that mitigate this risk: appropriate client selection, a new client review system and ongoing monitoring of amounts receivable. The Group consistently pursues the recovery of overdue receivables. The Group invests its cash in reliable financial institutions (selected on the basis of ratings). The Group is exposed to immaterial levels of credit risk.

Liquidity risk is the risk that arises when the Group meets difficulties in fulfilling is obligations related to financial liabilities.

Considering the stage of the Group's development, the pace of adoption of the developed technology and the innovative nature of the products based on this technology, we are exposed to a risk that we will not be able to fulfill our obligations when due, in particular due to limited access to funding, failure to earn revenues, delay in earning revenues or earning lower future revenues than assumed, or increased costs resulting from the development of our activity or other factors. In addition, we are exposed to the risk that key customers might fail to fulfill the contractual obligations towards the Group companies.

The Group takes a number of actions aimed at securing the funding for its current and future capital requirements, primarily through concentrating efforts on commercialization of its products, in parallel with efforts aimed at achieving the break even point as soon as practicable, and raising funding in the transition period from: issue of convertible notes, stock issue addressed to existing shareholders and a group of new investors, and research and development support programs (subsidies).

The Company monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of for assets and liabilities and projected cash flows from operating activity.

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

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

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

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

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

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

The Group does not execute transactions on financial markets for speculative purposes.

The main financial instruments used by the Parent Company and the subsidiaries include bank loans, cash and short-term deposits. The Group also holds various other financial instruments, such as trade receivables and payables, which arise directly from its activities. The Group does not classify any instruments categorized as loans and borrowings to financial liabilities designated for measurement at fair value through profit or loss. All loans, borrowings and other debt instruments are carried at amortized cost using the effective interest rate.

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

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item	30 June 2019 fair value	30 June 2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	7	7	-	-	-	7
Loans	-	-	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	58	58	-	-	58	-
Receivables other than above that are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	1,028	1,028	-	-	-	1,028

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

Financial liabilities by balance sheet item	30 June 2019 fair value	30 June 2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	214	214	-	214	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Measurement of other instruments – derivatives	-	-	-	-	-
Trade liabilities	225	225	-	225	-
Liabilities other than above that are financial liabilities	-	-	-	-	-

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

Financial assets by balance sheet item	30 June 2018 fair value	30 June 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	7	7	-	-	-	7
Loans	-	-	-	-	-	-
Long-term security deposits and other long-term receivables	-	-	-	-	-	-
Trade receivables	22	22	-	-	22	-
Receivables other than above that are financial assets	-	-	-	-	-	-
Short-term securities	-	-	-	-	-	-
Debt securities	-	-	-	-	-	-
Bank deposits	-	-	-	-	-	-
Cash	1,086	1,086	-	-	-	1,086

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

Financial liabilities by balance sheet item	30 June 2018 fair value	30 June 2018 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	345	345	-	345	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Measurement of other instruments – derivatives	-	-	-	-	-
Trade liabilities	220	220	-	220	-
Liabilities other than above that are financial liabilities	-	-	-	-	-

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

Sensitivity analysis

As at 30 June 2019 and as at the end of 2018, the Group did not hedge its transactions denominated in foreign currencies.

The following table presents the sensitivity of the gross financial result (due to movement in the fair value of cash assets and liabilities) to reasonable fluctuations in the exchange rate of the US dollar ("USD"), assuming that other factors remain unchanged. According to the Group's estimates, the impact of exchange rate fluctuations on the Group's equity and total comprehensive income would be similar to the impact on the gross financial result, when income tax is taken into account.

Currency risk 1 January 2019 – 30 June 2019

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

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	8	-1	-	1	-
Loans	0	-	-	-	-
Long-term security deposits and other non-current receivables	-	-	-	-	-
Trade receivables	58	-	-	-	-
Receivables other than above that are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	1,028	-90	-	110	-
cash in bank	1,028	-90	-	110	-

Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	214	19	-	-24	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	193	11	-	-14	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

Currency risk 1 January 2018 - 30 June 2018

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	7	-1	-	1	-
Loans	-	-	-	-	-
Long-term security deposits and other non-current receivables	-	-	-	-	-
Trade receivables	22	-1	-	1	-
Receivables other than above that are financial assets	-	-	-	-	-
Short-term securities	-	-	-	-	-
Debt securities	-	-	-	-	-
Bank deposits	-	-	-	-	-
Cash	1,086	-146	-	108	-
cash in bank	1,086	-146	-	108	-
Financial liabilities					
Bank loans	-	-	-	-	-
Long-term	-	-	-	-	-
Short-term	-	-	-	-	-
Loans	345	32	-	-39	-
Finance leases	-	-	-	-	-
Long-term security deposits and other non-current liabilities	-	-	-	-	-
Debt securities	-	-	-	-	-
Trade liabilities	220	15	-	-23	-
Liabilities other than above, which are financial liabilities	-	-	-	-	-

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

Note 33.2 Capital risk management

The Group manages capital to maintain its capacity to continue its activity, taking into account the planned capital expenditures, so that it can generate returns for shareholders and bring benefits to other stakeholders and also to maintain the optimum capital structure to reduce its cost. In line with the market practices, the Group is monitoring capital, among others on the basis of the debt to equity ratio. The debt to equity ratio is calculated as the ratio of debt to financial capital. Debt is calculated as the sum of financial liabilities (loans, borrowings), while financial capital is the sum of equity and financial liabilities.

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

Item	30.06.2019	31.12.2018	30 June 2018
Debt	214	320	345
Equity	9,556	10,901	7,433
Reserve capital, total	9,770	11,221	7,778
Debt to equity ratio	2.2%	2.8%	4.4%

Note 34 Employment in the Group

Item	Average headcount in the period from 1 January 2019 to 30 June 2019		
(persons)	**total**	**white-collar employees**	**blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	35	35	-
Sway Sp. z o.o.	6	6	-
Total	**41**	**41**	**-**

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

Item	Average headcount in the period from 1 January 2018 to 31 December 2018		
(persons)	total	white-collar employees	blue-collar employees
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	49	49	-
Sway Sp. z o.o.	6	6	-
Total	**55**	**55**	**-**

Item	Average headcount in the period from 1 January 2018 to 30 June 2018		
(persons)	total	white-collar employees	blue-collar employees
Silvair, Inc.	-	-	-
Silvair Sp. z o.o.	62	62	-
Sway Sp. z o.o.	3	3	-
Total	**65**	**65**	**-**

Note 35 Entity authorized to audit financial statements

The annual consolidated financial statements prepared as at 31 December 2018 were audited and the interim condensed consolidated financial statements as at 30 June 2019 were reviewed by Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań at ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor’s fee for reviewing the interim condensed consolidated financial statements was PLN 22,000.

The interim consolidated financial statements as at 30 June 2018 were audited by UHY ECA Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. with its registered office in Kraków at ul. Moniuszki 50. The net amount of the contractor’s fee for auditing the interim condensed consolidated financial statements was PLN 12,500.

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

Note 36 Loans granted by the Group to persons comprising management and supervisory bodies

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

Note 37 Compensation of key management personnel

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

Item	01.01.2019 –30.06.2019	01.01.2018 – 30.06.2018
Szymon Słupik	40	40
Adam Gembala	40	40
Rafał Han	40	40
Oktawian Jaworek	-	8
Gross compensation paid	**120**	**128**

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

Item	01.01.2019 –30.06.2019	01.01.2018 – 30.06.2018
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	82	20
Gross compensation paid	**82**	**20**

Total compensation of key personnel

Total compensation of key management	01.01.2019 –30.06.2019	01.01.2018 – 30.06.2018
Rafał Han	122	60
Szymon Słupik	40	40
Adam Gembala	40	40
Oktawian Jaworek	-	8
Total compensation	**202**	**148**

Note 13 presents costs captured in the consolidated profit and loss account related to the valuation of options in the "Additional Option Pool" referred to in Note 30.

Note 38 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company:

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

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

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

Loan agreement between Silvair, Inc. (lender) and Silvair Sp. z o.o. (borrower).

As at 30 June 2019, in connection with this loan, Silvair Sp. z o.o. posted a liability under the loan from Silvair, Inc. in the amount of USD 6,334 thousand, as at 31 December 2018, it showed a receivable in the total amount of USD 4,454 thousand, and as at 30 June 2018 it posted a receivable in the total amount of USD 2,369 thousand.

Loan agreement between Silvair Sp. z o.o. (lender) and Sway Sp. z o.o. (borrower).

As at 30 June 2019, in connection with the loan Sway Sp. z o.o. showed a liability on account of the loan received from Silvair Sp. z o.o. in the amount of USD 246 thousand. In 2018, Silvair Sp. z o.o. granted a loan of PLN 680 thousand to Sway Sp. z o.o., as a result of which the balance of liabilities on account of loans received from Silvair Sp. z o.o. is now USD 186 thousand. As at 30 June 2018, Sway Sp. z o.o. showed a liability on account of the loan received from Silvair Sp. z o.o. in the amount of USD 102 thousand.

Trade settlements within the Group

As at 30 June 2019 and as at 30 June 2018, Sway Sp. z o.o. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities. As at 31 December 2018, Sway Sp. z o.o. had a trade liability toward Silvair Sp. z o.o. in the amount of PLN 61.5 thousand.

As at 30 June 2019 and as at 30 June 2018, Silvair, Inc and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities. As at 31 December 2018, Silvair Sp. z o.o. reported trade receivables from Silvair, Inc. in the amount of PLN 205 thousand (USD 54 thousand).

Transactions between the companies and mutual liabilities and receivables were excluded from these condensed interim consolidated financial statements.

Entities having personal ties with Group companies:

Transactions between entities with personal ties:

As stated in Note 3.4 of the explanatory notes to the consolidated financial statements, as at 30 June 2019 and as at 30 June 2018, the subsidiaries Silvair Sp. z o.o. and Sway Sp. z o.o. were parties to a lease agreement for a property in Kraków at ul. Jasnogórska, where the head offices of both companies are located.

The lessor is Centrum Jasnogórska 44 Spółka z o.o. with its registered office in Kraków, taxpayer identification no. NIP 6770050681, entered in the National Court Register under file no. 0000131205. Centrum Jasnogórska 44 is related to the issuer through the person of Mr. Szymon Słupik, who is a shareholder and vice-president of the company's management board and at the same time a member of the Board of Directors (Shareholder) of the Parent Company, Silvair, Inc.

In the financial years 2018-2019, the Group leased space from Centrum Jasnogórska 44 Spółka z o.o. where the total cost of the transactions was: USD 135 thousand in H1 2019, USD 278 thousand in 2018 and USD 144 thousand in H1 2018, respectively. The total cost in the period from 1 January to 30 June 2019 was USD 110 thousand, in 2018 USD 225 thousand, and in the period from 1 January to 30 June 2018 amounted to USD 117 thousand.

As regards the recognition of the above lease agreement in the statement of financial position, the Group presented them as leases according to IFRS 16.

As at 30 June 2019, balance sheet date of 31 December 2018 and as at 30 June 2018, the Group had no liabilities due to that Company under the lease agreement.

Except as described above, the Group's key management personnel and their close family members did not control, jointly control or exert significant influence on and were not members of key personnel of the entities that entered in material transactions with Group Companies in the reporting period.

Transactions with the key management personnel

Key management personnel:

Key management personnel is comprised of the persons who, directly or indirectly, have the right to and are responsible for planning, managing and controlling of the group's activities.

In the reporting period, the key management personnel was comprised of:

Rafał Han – Chief Executive Officer

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

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

Paweł Szymański – Non-executive Director

Marek Kapturkiewicz – Non-executive Director

Compensation received by the key management personnel in connection with their functions and on account of share-based payments is described in Note 37.

Transactions between Group Companies and key management personnel and/or shareholders:

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

As at 30 June 2019, as at the balance sheet date of 31 December 2018 and as at 30 June 2018 , Silvair Sp. z o.o. and Sway Sp. z o.o. posted no liabilities toward shareholders or the Board of Directors other than current liabilities on account of compensation and business travel.

Note 39 Minority interest

Movement in non-controlling interest	01.01.2019 – 30.06.2019	01.01.2018 – 31.12.2018	01.01.2018 – 30.06.2018
As at the beginning of the financial year	**407**	-	-
Contributions to capital of Sway	-	427	427
Result for the year attributable to non-controlling interest	-19	-20	-3
As at the end of the financial year	**388**	**407**	**424**

In accordance with a resolution adopted by the Extraordinary Shareholder Meeting, on 18 May 2018 the share capital of Sway was increased by PLN 310,000 from PLN 3,100,000 to PLN 3,410,000. This was achieved by creating 6,200 new, equal and indivisible shares with a par value of PLN 50 each.

In accordance with the Notarial Deed entered in the Register of Deeds A under file number 1125/2018, prepared by Notary Monika Sucheta, the new shares were acquired by ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. with its registered office in Kraków in exchange for a cash contribution of PLN 1,600,000, of which PLN 310,000 was allocated to the share capital and the remaining amount constituting a premium over the total par value was allocated to the company's supplementary capital.

Note 40 Subsidiaries with non-controlling interest

Non-controlling interest exists in the subsidiary SWAY Spółka z ograniczoną odpowiedzilanością with its registered office in Kraków at ul. Jasnogórska 44. The company is entered in the National Court Register kept by the District Court for Kraków-Śródmieście, 11th Commercial Division, under file no. KRS 0000464535.

ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. with its registered office in Kraków, KRS 000068796 (ASI, Fund) became a shareholder in Sway Sp. z o.o. on the basis of the Notarial Deed entered in the Register of Deeds A under file number 1125/2018, prepared by Notary Monika Sucheta, in the Notary's Office in Kraków at ul. Ogrodowa 1/1.

In accordance with a resolution adopted by the Extraordinary Shareholder Meeting, on 18 May 2018 the share capital of Sway was increased by PLN 310,000 from PLN 3,100,000 to PLN 3,410,000 by creating 6,200 new, equal and indivisible shares with a par value of PLN 50 each.

The new shares were acquired in exchange for a cash contribution of PLN 1,600,000, of which PLN 310,000 was allocated to the share capital and the remaining amount constituting a premium over the total par value was allocated to the company's supplementary capital.

The transaction was a consequence of the Investment Agreement of 28 March 2018 and the Grant Agreement. The Investment Agreement provided for the establishment of cooperation under which ASI would provide Sway with funding for the execution of an R&D Project in exchange for the granting of rights to ASI in respect of both the company and its Founder. The agreement provided for a total investment of PLN 5 million, of which:

- 20% of the funding, provided by the Fund from its own resources would cover a contribution to the increased share capital of Sway in connection with the creation of Shares acquired by the Fund,
- 80% of the funding would be a non-returnable grant provided by the National Center for Research and Development to the Company under the Grant Agreement, with the Fund acting as the intermediary.

Share ownership structure as at 30 June 2019	Number of shares	% of shares	Value of shares PLN 000s	Number of votes	% of votes
Silvair Sp. z o.o.	62,000	90.91	3,100	62,000	19.91
ASI Alfa Bridge	6,200	9.09	310	6,200	9.09
Total	**68,200**	**100.00**	**3,410**	**68,200**	**100.00**

The Grant Agreement contains provisions under which the National Center for Research and Development or an entity indicated by it has the priority right to:

- acquire each time up to 50% of new Share Rights at every increase in the share capital of Sway, including before the Company's shareholders. Sway Sp. z o.o. is required to enable the National Center for Research and Development or the entity indicated by it to exercise its priority right
- to acquire before other entities all intellectual property rights and rights related to confidential information, in particular titles to:
    - all patents and patent applications, protection rights, industrial designs, all economic copyrights, works protected by copyright laws and all related rights;
    - topographies of integrated circuits, topography registration rights, registrations or applications related thereto and all related rights;
    - all packaging and trade names, logos, addresses and internet domains, trademarks and service brands with related registrations and applications, all other designations of commercial origin and goodwill associated with any of the foregoing;
    - all inventions, designs, marks, recipes, know-how (whether or not subject to patenting, notification or registration, whether or not actually implemented and regardless of their form and manner of recording or lack thereof),
    - all confidential information related to the execution of the grant program under which the Agreement was entered into, including that related to the conduct of business activity by the Grantee, the execution of the R&D Project, improvement projects, standards, quality requirements, technical plans, quality control methods, utility and industrial designs, patentable inventions, information related to

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marketing activities and organization of the sales market, information related to the organizational structure, job descriptions, internal regulations concerning determination of the scope of responsibility, rules governing the funding of operations, compensations of employees and persons hired under civil law contracts, technologies, technical data, trade secrets, confidential information, production and manufacturing processes and technologies, information on research and development, financial, marketing and business data, information on pricing and costs, business and marketing plans and any other information related to the conduct of business activity by the Grantee or its execution of the R&D Project, whether or not the confidentiality has been explicitly stated and regardless of their form and manner of recording or lack thereof;

- software (including source code and object code), firmware, programming tools, algorithms, files, records, technical drawings and related documentation, data and manuals;
- all databases and data sets; and
- all reproductions, copies and records of the foregoing (in any form and on any carrier).

The carrying amount in the consolidated financial statements of the assets to which the restrictions apply is USD 730 thousand as at 30 June 2019, USD 860 thousand as at 30 June 2018 and USD 825 thousand as at 31 December 2018.

Condensed financial information for the subsidiary with non-controlling interests:

	30 June 2019	31 December 2018	30 June 2018
A. Non-current assets	**1,669**	**1,600**	**1,517**
including costs of development work	1,637	1,563	1,508
B. Current assets	**431**	**686**	**856**
Total assets	**2,100**	**2,286**	**2,373**

	30 June 2019	31 December 2018	30 June 2018
A. Equity	1,120	1,301	1,471
B. Non-current liabilities	325	331	316
C. Current liabilities	655	654	586
Equity and liabilities	**2,100**	**2,286**	**2,373**

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

Statement of profit or loss	**01.01.2019–30.06.2019**	**01.01.2018–30.06.2018**
A. Income	-	-
B. Cost of sales	-	-
C. Gross sales result	-	-
D. Net sales result	-174	-164
E. Profit/(loss) for the period	-187	-177
Total comprehensive income	**-187**	**-177**

Cash flow statement	**01.01.2019–30.06.2019**	**01.01.2018–30.06.2018**
A. Net cash from operating activities	-92	449
B. Net cash from investing activities	-162	335
C. Net cash from financing activities	-13	14
D. Total net cash flows (A.+B.+C.)	-267	798
E. Movement in balance sheet cash	-267	798
F. Cash at the beginning of the period	**660**	**35**
G. Cash and cash equivalents at the end of the period	**393**	**833**

The interim condensed consolidated financial statements for the period from 1 January to 30 June 2019 (including comparative data) were approved for publication by the Board of Directors on 30 September 2019.

Rafał Han

Chief Executive Officer (CEO)

Szymon Słupik

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

Adam Gembala

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

Paweł Szymański

Director

Marek Kapturkiewicz

Director