

Annual standalone financial statements of Silvair, Inc.

Kraków, 20 April 2023

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General information

Entity data

Name:	Silvair, Inc.
Changes to identification data that occurred after the end of the previous reporting period:	None
Headquarters:	San Francisco, USA
Registered office:	717 Market Street, Suite 100, San Francisco, CA 94103, USA
Core business:	IT business
Legal form:	American law company
Country of registration:	USA
Registration authority:	Secretary of State, Delaware Department of State, Delaware Corporate Number 5543093
EIN: (Employer Identification Number)	43-2119611
Company's duration:	Unlimited
Name of the group's parent company:	Silvair, Inc.
Name of the group's ultimate parent company:	Silvair, Inc.

Description of business activity

Silvair, Inc. (Issuer, Entity, Company) is an entity operating in the field of new technologies focusing on the Internet of Things (IoT). Silvair, Inc. Group has developed an innovative technology for wireless communication of devices in the mesh topology, and is currently commercializing - in the global market - its product in the form of software and services with particular focus on smart lighting systems.

The Issuer's strategic goal is to achieve a leading position in the market of modern technological solutions for the IoT that are based on the Bluetooth Mesh standard. The main factor contributing to the Group's competitive advantage is its participation and the role it plays in the Bluetooth Special Interest Group (Bluetooth SIG), an 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 that would support 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 the 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 a technology and service platform named Silvair Platform which is designed to be implemented in commercial buildings.

The Group enables component manufacturers to quickly integrate Silvair Firmware into their devices without incurring significant costs related to the independent development of the appropriate technology. This in turn allows them to quickly enter the market of wireless lighting control solutions, the share of which in the global lighting market is steadily growing, and which are already today widely regarded as the future of the lighting industry. The tools for commissioning and managing wireless lighting control systems, which the Company provides to its partners as part of the Silvair Platform, set new trends in the lighting control sector. They allow users to commission and manage the network from the level of applications that are available for commonly used mobile devices (smartphones, tablets). Using the innovative approaches provided by the Bluetooth Mesh standard, the Group has introduced a number of user-friendly solutions that significantly facilitate network commissioning and management, which in turn accelerates the entire process and considerably reduces the cost of commissioning of a lighting control system.

The Group also develops tools that allow the analysis and use of data generated by lighting infrastructure - including both operational data related to the current functioning of the installation (Connected Lighting), as well as data generated by sensors that are part of the lighting infrastructure (Building Intelligence). The said tools allow the provision of innovative services that can be offered, among others, in a subscription model. Appropriately processed operational data related to the current functioning of the lighting installation make it easier for commercial space managers to automate the processes related to the management of lighting infrastructure, which directly translates into maintenance costs reduction (through i.a. automatic monitoring of the condition of devices, monitoring of the level of electricity consumption, or automation of mandatory emergency lighting tests).

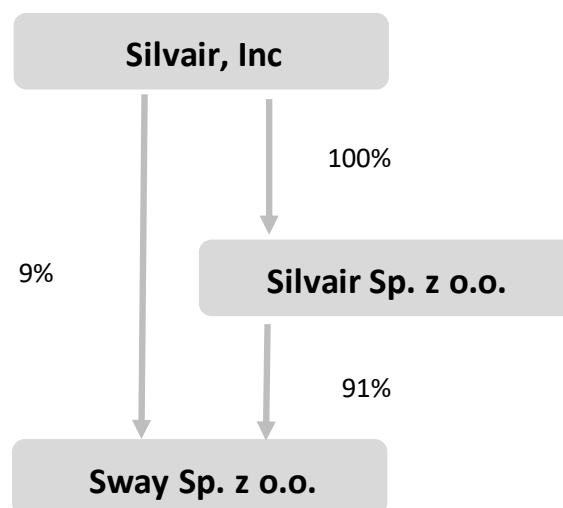
On the other hand, the use of data generated by sensors that are part of the lighting infrastructure gives managers and owners a detailed insight into the processes taking place inside their properties, which allows for using the available resources in a more efficient way and increasing the quality of services provided to tenants and occupants of commercial spaces. In particular, such data can be used, among others, to: monitor the occupancy of commercial spaces (for example to optimize space utilization or enable more efficient management of HVAC infrastructure), enable radio location of resources on a floor plan (to optimize warehouse logistics or enable faster identification and finding of key resources, e.g. medical apparatus in hospitals), or to navigate people through indoor spaces.

The Group's business activity covers the global market, and in particular the markets of North America and Europe.

The Group

The reporting entity Silvair, Inc. is the Group's parent company and the ultimate parent company preparing consolidated financial statements.

The Group's structure as at 31 December 2022



Functional and presentation currency

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

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

Presentation periods

The annual standalone financial statements have been prepared as at 31 December 2022 and cover the period of 12 months, i.e. from 1 January 2022 to 31 December 2022.

For the data presented in the annual standalone statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2021.

For the data presented in the annual standalone profit and loss account, annual standalone statement of comprehensive income, annual standalone statement of changes in equity and annual standalone cash flow statement, comparative financial data were presented for the period from 1 January 2021 to 31 December 2021.

Going concern assumption

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

Despite the highly unstable global geopolitical and economic situation, in 2022 the Silvair Group reported a double increase in revenue compared to the previous year. The key indicators reflecting the level of adoption

of the offered solutions in the market also more than doubled. The most important one, which reflects the number of devices installed using Silvair Commissioning tools, reached the level of over 88,000, which is an increase of 148% compared to 2021. At the same time, in 2022 the Group's partners manufactured over 194,000 lighting components based on Silvair Firmware, which represents an increase of 135% compared to the previous year. The number of lighting projects implemented with the use of Silvair solutions is also growing dynamically. This is driven, among others, by constantly improving sales results on the part of the Group's key business partners, increasing awareness in the lighting industry regarding the advantages of the Bluetooth Mesh standard over other communication technologies, as well as growing recognition of the Silvair brand.

The technology industry continues to struggle with shortages in the semiconductor market, but the adverse consequences of the global COVID-19 pandemic have recently become less noticeable. The Group expects further dynamic business development over the coming years, estimating that the growth will be driven, among others, by the following processes and trends:

- Further increase in the level of sales by the Group's partners,
- Systematic expansion of the ecosystem of partners, both on the side of manufacturers of lighting components and suppliers of complete lighting control systems,
- An increasingly complete product offer which from 2022 also includes a set of Connected Lighting services related to the use of data generated by smart lighting networks,
- The growing global trend of increasing the energy efficiency of built-up infrastructure in response to the ongoing climate change and the drastic increase in energy prices in 2022.

Counteracting climate change is becoming a major priority in highly developed countries today, resulting in numerous legal regulations and long-term transformation programs aimed at reducing the harmful impact of human activity on the Earth's climate system. It is believed that over the years, replacing obsolete and highly energy-intensive technologies with modern energy-saving solutions will become an absolute necessity in almost all areas of our lives. The next stages of this transformation are happening before our eyes, as exemplified by the successive legal regulations introduced in the European Union. September 2023 will be the last month in which mercury-containing lamps (including fluorescent linear and circular lamps, as well as compact fluorescent lamps) will be able to be introduced to the EU market. These types of lamps are still popular e.g. in industrial applications, and the legal changes planned for this year open up a number of business opportunities for the Silvair Group and its partners operating on the European market.

At the same time, the drastic increase in energy prices observed in recent quarters motivates companies and institutions to independently search for solutions that can increase their energy efficiency and reduce the costs associated with the operation of lighting infrastructure. This was clearly visible in the number of inquiries related to energy efficiency that were addressed to the Silvair Group in 2022. The solutions and products offered by the Group make it possible to achieve profound energy savings in commercial spaces. Case study materials presented by the Group's partners document reductions in electricity costs of even up to 75% after implementing lighting control solutions based on Silvair technology.

Considering the above, the Group's product offer seems to be well suited to current market needs. There are also no indications that in the foreseeable future the trend towards improving the energy efficiency of buildings could be reversed or even weakened. Taking into account the Group's experience to date, as well as the specificity of the solutions and products developed by the Group, it can be expected that appropriate

scaling of key business areas and effective management of challenges related to rapid growth should result in further dynamic business development.

This situation also has a positive impact on the investment climate around the Group and the opportunities for raising capital to finance its further operations. Despite the increase in consolidated revenues in 2022 by over 100% compared to the corresponding period of the previous year, the current sales revenues do not yet allow for the full financing of the Group's operating and development activities over the next 12 months. This state of affairs may raise doubts regarding the continuation of the Group's operation. On 7 February 2023, the Board of Directors of Silvair, Inc. adopted a resolution on approval of incurring liabilities up to the total nominal value of USD 5.0 million in the form of an issue of debt securities convertible into new issue ordinary shares of the Company. As part of this issue, until the date of publication of this report, the Company has issued Convertible Securities for the total amount of USD 0.5 million.

Composition of the Entity's corporate bodies as at 31 December 2022:

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President,
Secretary and Treasurer

Rafał Han — Director

Paweł Szymański — Director

Christopher Morawski — Director

Officers:

Rafał Han — Chief Executive Officer (CEO)

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

As at the publication date, the composition of the Entity's governing bodies remained unchanged.

Selected financial data

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

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

Reporting period	Average exchange rate in the period	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2022 - 31.12.2022	1,0493	0,9557	1,1472	1,0655
01.01.2021 - 31.12.2021	1,1811	1,1208	1,2294	1,1329

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

Reporting period	Average exchange rate in the period	Minimum exchange rate in the period	Maximum exchange rate in the period	Exchange rate as at the last day of the period
01.01.2022 - 31.12.2022	0,2238	0,1985	0,2550	0,2272
01.01.2021 - 31.12.2021	0,2580	0,2387	0,2736	0,2463

Selected financial data translated as at the balance sheet date:

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

Item (amounts expressed in thousands)	USD		EUR		PLN	
	01.01.2022 -31.12.2022	01.01.2021 -31.12.2021	01.01.2022 -31.12.2022	01.01.2021 -31.12.2021	01.01.2022 -31.12.2022	01.01.2021 -31.12.2021
Net revenue on the sale of products, goods and materials	-	-	-	-	-	-
Profit/(loss) from operating activities	-733	-780	-699	-660	-3 275	-3 023
Profit (loss) before tax	-1 133	-967	-1 080	-819	-5 063	-3 748
Profit (loss) of the period	-1 134	-968	-1 081	-820	-5 067	-3 752
Net cash flows from operating activities	-761	-683	-725	-578	-3 400	-2 647
Net cash flows from investing activities	-1 222	-2 255	-1 165	-1 909	-5 460	-8 740
Net cash flows from financing activities	1 272	1 162	1 212	984	5 684	4 504
Total net cash flows	-711	-1 776	-678	-1 504	-3 177	-6 884

For line items of the statement of financial position

Item (amounts expressed in thousands)	USD		EUR		PLN	
	31.12.2022	31.12.2021	31.12.2022	31.12.2021	31.12.2022	31.12.2021
Total assets	26 923	26 514	25 268	23 404	118 499	107 649
Liabilities and provisions for liabilities	3 705	2 379	3 477	2 100	16 307	9 659
Non-current liabilities	1 282	-	1 203	-	5 643	-
Current liabilities	2 423	2 379	2 274	2 100	10 665	9 659
Equity	23 218	24 135	21 791	21 304	102 192	97 990
Share capital	1 583	1 558	1 486	1 375	6 967	6 326
Number of shares	15 831 719	15 583 106	15 831 719	15 583 106	15 831 719	15 583 106
Weighted average number of shares	15 752 745	13 608 994	15 752 745	13 608 994	15 752 745	13 608 994
Earnings/(loss) per share (in USD, EUR and PLN)	-0,07	-0,06	-0,07	-0,05	-0,32	-0,24
Book value per share (in USD, EUR and PLN)	1,47	1,55	1,38	1,37	6,49	7,20

Representation by the Board of Directors

These annual standalone financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 1 January 2022.

The Company informs that the representations by the Board of Directors on the preparation and publication of these financial statements for the period from 1 January to 31 December 2022 are presented in the Report of the Board of Directors of Silvair, Inc. on the activities of the Silvair, Inc. Group for 2022.

Annual standalone financial statements of Silvair, Inc.

Annual standalone statement of financial position

(amounts expressed in thousands USD)	Note no.	31 December 2022	31 December 2021
Non-current assets		26 888	12 395
Intangible assets	1.2	45	51
Shares in subsidiaries	2	26 843	12 344
Deferred tax assets		-	-
Current assets		35	14 119
Prepayments and accruals	3.3	16	17
Financial assets	3.1	-	13 372
Cash and cash equivalents	3.2	19	730
Total assets		26 923	26 514

(amounts expressed in thousands USD)	Note no.	31 December 2022	31 December 2021
Equity		23 218	24 135
Share capital	4	1 583	1 558
Capital from revaluation of options	5	491	538
Other capital	6.1	27 938	27 699
Retained earnings	7	-5 660	-4 692
Financial result of the current period		-1 134	-968
Non-current liabilities		1 282	-
Other non-current liabilities	9.2	1 282	-
Current liabilities		2 423	2 379
Trade liabilities	9.1	73	134
Liabilities on bonds convertible to shares	9.2	2 350	2 245
Other short-term provisions	9.3	-	-
Equity and liabilities		26 923	26 514

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

Annual standalone profit and loss account (amounts expressed in thousands USD)	Note no.	01.01.2022 –31.12.2022	01.01.2021 –31.12.2021
Revenue		-	-
Cost of sales		-	-
Gross sales result		-	-
Selling and distribution expenses	11	215	202
General and administrative expenses	11	502	566
Net sales result		-717	-768
Other operating income	11.1	-	-
Other operating expenses	11.1	16	12
Operating result		-733	-780
Financial income, including:	12	553	535
Interest		553	535
Financial costs, including:	13	953	722
Interest		137	189
Result before tax		-1 133	-967
Income tax, including:	14	1	1
Current part		1	1
Deferred part		-	-
Net profit/(loss) for the period		-1 134	-968

	01.01.2022 -31.12.2022	01.01.2021 -31.12.2021
Net earnings/(loss) per share (in USD)	-0,07	-0,06
Diluted earnings/(loss) per share (in USD)	-0,06	-0,06

Annual standalone statement of other comprehensive income (amounts expressed in thousands USD)	01.01.2022 -31.12.2022	01.01.2021 -31.12.2021
Net profit/(loss) for the period	-1 134	-968
Other comprehensive income, including:	-	-
Other comprehensive income to be reclassified to result in the future	-	-
Other comprehensive income not to be reclassified to result in the future	-	-
Total comprehensive income	-1 134	-968

Annual standalone statement of changes in equity

Standalone statement of changes in equity (amounts expressed in thousands USD)	Share capital	Capital from revaluation of options	Other capital	Retained earnings	Financial result	Total equity
At the beginning of the period 01.01.2022	1 558	538	27 699	-5 660	-	24 135
Error correction	-	-	-	-	-	-
At the beginning of the period 01.01.2022, adjusted	1 558	538	27 699	-5 660	-	24 135
Exercise of stock options for Company shares	25	-242	239	-	-	22
Issue of new shares as part of the stock plan	-	-	-	-	-	-
Valuation of stock options under IFRS 2	-	195	-	-	-	195
Expenditures incurred in connection with the stock issue	-	-	-	-	-	-
Conversion of bonds into shares	-	-	-	-	-	-
Total transactions with owners	25	-47	239	-	-	217
Net profit (loss) for the period from 01.01 to 31.12.2022	-	-	-	-	-1 134	-1 134
Other comprehensive income after tax for the period from 01.01 to 31.12.2022	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-
At the end of the period 31.12.2022	1 583	491	27 938	-5 660	-1 134	23 218

Standalone statement of changes in equity (amounts expressed in thousands USD)	Share capital	Capital from revaluation of options	Other capital	Retained earnings	Financial result	Total equity
At the beginning of the period 01.01.2021	1 343	483	24 582	-4 692	-	21 716
Error correction	-	-	-	-	-	-
At the beginning of the period 01.01.2021, adjusted	1 343	483	24 582	-4 692	-	21 716
Exercise of stock options for Company shares	33	-237	238	-	-	34
Issue of new shares through IPO	65	-	1 117	-	-	1 182
Valuation of stock options under IFRS 2	-	292	-	-	-	292
Expenditures incurred in connection with the stock issue	-	-	-50	-	-	-50
Conversion of bonds into shares	117	-	1 812	-	-	1 929
Transactions with owners	215	55	3 117	-	-	3 387
Net profit (loss) for the period from 01.01 to 31.12.2021	-	-	-	-	-968	-968
Other comprehensive income after tax for the period from 01.01 to 31.12.2021	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-968	-968
At the end of the period 31.12.2021	1 558	538	27 699	-4 692	-968	24 135

Annual standalone statement of cash flows

(amounts expressed in thousands USD)	Note no.	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Profit (loss) before tax		-1 133	-967
Adjustments for:		372	284
Depreciation and amortization	11	6	6
Foreign exchange gains (losses)		743	533
Interest and profit sharing (dividends)		-416	-346
Movement in provisions		-	-
Movement in inventory		-	-
Movement in receivables		-	-
Movement in current liabilities, except for loans and borrowings		-61	-126
Tax paid		-1	-1
Movement in prepayments and accruals		1	1
Other adjustments resulting from operating activity	3.2.1	100	217
Net cash from operating activities		-761	-683
Proceeds		220	-
Disposal of intangible assets and property, plant and equipment		-	-
Loans repaid		220	-
From financial assets, including:		-	-
In related entities		-	-
In other entities		-	-
Expenditures		1 442	2 255
Purchase of intangible assets and property, plant and equipment		-	-
Loans granted		1 442	2 255
For financial assets, including:		-	-
In related entities		-	-

Net cash from investing activities	-1 222	-2 255
Proceeds	1 272	1 162
Net proceeds from issuing shares and additional capital contributions	22	1 162
Loans and borrowings drawn	-	-
Proceeds from the issue of debt securities	1 250	-
Interest	-	-
Expenditures	-	-
Repayment of loans and borrowings	-	-
Repayment of lease liabilities	-	-
Interest	-	-
Net cash from financing activities	1 272	1 162
Net cash flows	-711	-1 776
Movement in cash	-711	-1 776
Movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	730	2 506
Cash at the end of the period	19	730

Explanatory notes to the annual standalone financial statements

Basis for preparation and accounting policies

Basis for preparation of the standalone financial statements

These annual standalone financial statements cover the period of 12 months ended on 31 December 2022 and have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") and interpretations issued by the International Accounting Standards Board approved by the European Union, effective for annual periods beginning on 1 January 2022.

The EU IFRS include the standards and interpretations accepted and published by the International Accounting Standards Board (IASB).

Amendments to standards or interpretations

Published Standards and Interpretations that have been issued and are effective for annual periods beginning on 1 January 2022:

- Amendments to IAS 16 Property, plant and equipment - prohibiting the deduction from the production cost of an item of property, plant and equipment of any proceeds from the sale of items produced while the asset is being brought to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity shall recognize the proceeds from the sale of such items and the production cost of those items in the profit and loss account. Effective date - annual period beginning on or after 1 January 2022
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets - the amendments provide clarifications regarding the costs that an entity considers in analyzing whether a contract is an onerous contract. The amendment is effective for financial statements for periods beginning on or after 1 January 2022.
- Annual Improvements Programme 2018-2020 - the amendments provide clarifications and further specify the standards' guidance on recognition and measurement: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture, and to illustrative examples to IFRS 16 Leases. Effective for annual periods beginning 1 January 2022
- Amendments to IFRS 3 Business Combinations, IAS 16 Property, Plant and Equipment, and IAS 37 Provisions, Contingent Liabilities and Contingent Assets - effective for annual periods beginning on or after 1 January 2022.

The Group considers that the application of the above-mentioned standards and amendments to standards did not have a material impact on the interim condensed consolidated financial statements in the period of their initial application, and resulted only in changes to the applied accounting principles or, possibly, extension of the scope of necessary disclosures.

New standards and interpretations that have been published but are not yet effective:

The following standards and interpretations have been issued by the International Accounting Standards Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC), but have not entered into force yet:

- Amendments to IFRS 10 and IAS 28 Sales or contributions of assets between an investor and its associate/joint venture. The accounting treatment depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a "business". In the event that the non-monetary asset constitutes a "business", the investor shall show the full gain or loss on the transaction.

If the assets do not meet the definition of a business, the investor recognizes a gain or loss excluding the portion representing the interests of other investors. The effective date of the amended regulations has not been set by the International Accounting Standards Board.

- IFRS 17 Insurance Contracts – published on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023. The main purpose of IFRS 17 is to ensure the transparency and comparability of insurers' financial statements. IFRS 17 introduces a number of significant changes in relation to the existing requirements of IFRS 4
- Amendment to IAS 1 Presentation of Financial Statements - relating to the classification of liabilities as current or non-current - was published on 23 January 2020 and is effective for annual periods beginning on or after 1 January 2023. Amendments to IAS 1 affect the requirements relating to the presentation of liabilities in financial statements. The classification of financial liabilities as non-current will depend on the existence of the rights to prolong the liability for a period longer than 12 months, and on the fulfillment of the conditions for the implementation of such a prolongation as at the balance sheet date.
- Amendment to IAS 1 Presentation of Financial Statements - the IAS Board clarified which information regarding the accounting policy applied by the entity is significant and requires disclosure in the financial statements. The principles focus on adjusting disclosures to the individual circumstances of the entity. The Board warns against the use of standardized provisions copied from IFRS and expects that the basis for valuation of financial instruments will be considered as material information. The change is effective for annual periods beginning on or after 1 January 2023.
- Amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors – Definition of accounting estimates. An amendment clarifying the definition of estimated values, i.e. monetary amounts recognized in the financial statements that are subject to measurement uncertainty. The amendment is applicable to annual periods beginning on or after 1 January 2023.
- Amendments to IAS 12 Income Taxes - obligation to recognize deferred tax on individual lease transactions and expired liabilities - effective for annual periods beginning on or after 1 January 2023.
- Amendment to IFRS 16 Leases - the amendment clarifies the requirements for the valuation of a lease liability arising from a sale and leaseback transaction. It is intended to prevent incorrect recognition of the result on the transaction in the part concerning the retained right of use in the case when lease payments are variable and do not depend on an index or rate. The change is effective for annual periods beginning on or after 1 January 2024.

Application of a standard or interpretation before its effective date

The Group decided not to use the option of earlier application of the above standards, amendments to standards, and interpretations. The Group will apply the amended standards to the extent of the introduced changes from 1 January 2023, unless a different effective date is provided. The application of the amended standards will not have a material impact on the Group's consolidated financial statements during the period of their initial application.

Description of adopted accounting policies

These annual standalone financial statements have been prepared in accordance with the historical cost principle, except for certain financial instruments which are measured at fair value.

Translation of items in foreign currencies

Transactions captured in the ledgers of Silvair, Inc. which are 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 Entity has adopted the following PLN/USD exchange rates for the purposes of balance sheet measurement:

	31 December 2022	31 December 2021
PLN/USD	0,2272	0,2463

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

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
PLN/USD	0,2238	0,2580

Property, plant and equipment

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

Property, plant and equipment is initially recognized at cost (purchase price or production cost) less depreciation charges and impairment losses in subsequent periods. Costs of external financing related directly to the acquisition or production of assets that require a longer period of time to become fit for use or resale are added to the production cost of such fixed assets only if non-recognition of such costs would materially affect the reliability and clarity of the presentation of financial situation. 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 entity 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 Entity also classifies the following as fixed assets: fixed assets under construction and investments in third party fixed assets.

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 Company verifies periodically, no later than at the end of the financial year, the assumed useful lives of fixed assets, residual value and depreciation methods, while

the effects of changes in these estimates are taken into account in the subsequent and following financial years (prospectively).

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 Entity also reviews property, plant and equipment for impairment indications and assesses the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Entity – based on the conducted impairment loss test – estimates 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 the following two amounts: fair value less the cost necessary to be incurred 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, as a result of the presumptions and a resulting re-test, the Company is sufficiently certain that the reason for the impairment loss recognized on an asset ceases to exist, it reverses the previously recognized impairment loss in whole or in part by crediting other operating income.

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 taking into account the provisions of IFRS 15.

Fixed assets under construction relate to fixed assets in the course of construction or assembly and are recognized at purchase price or manufacturing cost, less impairment losses, if any. Fixed assets under construction are not depreciated until the construction is completed and the asset is commissioned.

Intangible assets

Intangible assets are measured at the historical cost of acquisition or production less depreciation and impairment losses. Depreciation is calculated using the straight-line method.

The estimated period of depreciation of other intangible assets is from 2 to 10 years.

Intangible assets may include intangible assets with an indefinite useful life and goodwill. Goodwill and intangible assets with an indefinite useful life are not amortized. They are subject to annual impairment loss tests.

Not later than at the end of the financial year, the Entity performs periodic verification of the assumed economic useful lives of intangible assets, the residual value and the depreciation method, and the consequences of changes in these estimates are taken into account in the next and subsequent financial years (prospectively). As at the balance sheet date, the Company also verifies intangible assets in terms of

the existence of premises for impairment and the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Company, on the basis of the conducted impairment test, assesses that a given asset will not bring the expected economic benefits in the future or will bring significantly lower benefits. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the following two amounts: fair value less the costs to be incurred in connection with its sale, or value in use.

Other financial assets (other than investments in subsidiaries)

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

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

Assets are captured in the Entity's balance sheet when they become a party to a binding agreement. When an asset is recognized initially, it should be measured at its fair value – except for receivables recognized in accordance with IFRS 15 – plus, in the case of a financial asset or financial liability not classified as measured at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the asset or financial liability

The Company has adopted a model for granting loans to subsidiaries, which provides for the possibility of settling the loans in two ways, i.e. by returning the transferred cash together with interest due or by converting the granted loans into equity in subsidiaries. Neither of these settling methods is certain, so in this situation the loans cannot be classified as either assets held in a model based solely on the receipt of contractual cash flows or assets held in a model based on both the receipt of contractual cash flows and the sale of those assets (IFRS 9.4.1.2-4.1.2A). Accordingly, loans are included in the category of financial assets measured at fair value through profit or loss.

Loans granted are initially recognized at fair value, and as at the balance sheet date they are measured at fair value through profit or loss.

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

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

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

Investments in subsidiaries

Recognized as subsidiaries in the Company's financial statements are entities over which the Company exercises direct or indirect control. Investments in subsidiaries are recognized at purchase price less impairment losses.

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

For the value of future discounted cash flows measured this way, the Company additionally carries out a sensitivity analysis of the impact of changes to the effective interest rate and exchange rate fluctuations. As at the balance sheet date, the Entity also verifies the value of shares in subsidiaries in terms of the existence of indications of permanent impairment and the need to recognize impairment losses on this account. The need to recognize an impairment loss occurs when the Company, on the basis of the performed impairment test, assesses that a given asset will not bring the expected economic benefits in the future or will bring significantly lower benefits. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the two amounts: the fair value less the costs to be incurred in connection with its sale, or its value in use. Impairment losses are charged to financial costs in the period in which impairment is stated, not later than at the end of the financial year. If, as a result of the premises and the resulting re-test, the Entity concludes with sufficient certainty that the reason for which it recognized an impairment loss has ceased to exist, it reverses the previously made impairment loss, in part or in full, by recognizing revenues. Assumptions regarding the conducted test for the impairment of assets are disclosed in Note 2 Financial assets (long-term).

Trade receivables and other receivables

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

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

In the case of trade receivables, the Entity applies a simplified approach assuming calculation of write-offs for expected credit losses for the entire lifetime of the instrument.

Other receivables include, in particular, advance payments for future purchases of property, plant and equipment, intangible assets and inventories. The Entity presents advance payments in accordance with the nature of the assets they relate to - as fixed or current assets, respectively. Advances are measured at historical rates and are not discounted.

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

Prepayments and accruals

In prepaid expenses, the Entity captures expenses that were incurred in advance while they relate in whole or in part to subsequent periods. The Company recognizes deferred income for the purpose of treating this income as income in future reporting periods when they are realized. Accruals are liabilities payable for goods or services received or provided or formally agreed with the supplier, but not billed by the end of the financial year. The Company keeps records of prepayments and accruals for the short and long term.

Cash and cash equivalents

Cash includes cash in hand, cash in bank and any deposits and short-term securities with maturity of up to 3 months. Cash is measured at amortized cost.

Equity

The Company's equity is comprised of:

- Share capital
- Capital from revaluation of options
- Other capital
- Retained earnings
- Financial result of the current period

Share capital is recognized at par value, in the amount stated in the Entity'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 of instruments 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) for the purchase of the Entity'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.

For options granted after the parent company's shares have been made public, the services received in exchange for own equity instruments were measured at fair value determined indirectly by reference to the share price as at the grant date.

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

Other capital is created from:

- share premium account less cost of the issue
- difference between the value of shares and the carrying amount of net assets if shares are taken up in the entity under joint control,
- revaluation of assets,
- charges to profits of successive financial years.

Retained earnings consist of profits and losses made 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 Company has an existing obligation (legal or customary) resulting from past events, and the fulfillment of the obligation will likely reduce the resources embodying the Company's economic benefits, and the amount of the liability can be reliably estimated.

The amount of provisions recognized and the justification for recognizing new provisions is reviewed and updated at the end of the reporting period, in order to adjust the estimates to the Entity'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 Entity's present liabilities resulting from past events, the fulfillment of which will reduce assets generating economic benefits for the Company.

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

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

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

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

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under potentially unfavorable conditions
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative instrument 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 in exchange 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 entity's own non-derivative equity instruments.

Upon initial recognition, the Entity 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 amortized cost using the effective interest rate method or, if measurement at amortized cost would materially affect the accuracy and clarity of presentation of the liability – at par value.

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

The current tax burden is determined on the basis of the tax result (tax base) for a given 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 provisions are 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 income tax assets are amounts provided for deduction from income tax in future periods due to:

- negative temporary differences;
- carry-forward of unsettled tax losses;
- carry-forward of unused tax credits.

Deferred tax assets are recognized if it is probable that taxable income will be generated in the future, which will allow the use of the temporary differences.

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

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

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

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

Operating revenues and expenses

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

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

- identification of the contract with the customer,
- identification of the performance obligations,
- determination of the transaction price,
- allocation of the transaction price to performance obligations,
- recognition of revenue when or after the entity satisfies a performance obligation.

Identification of the contract with the customer

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

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

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

Identification of the performance obligations

At contract inception, the Company assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: a good or service (or a 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.

Determination of the transaction price

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

Allocation of the transaction price to performance obligations

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

Recognition of revenue when or after the entity satisfies a performance obligation

The Entity recognizes revenue when (or as) it 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, when determining the transaction price, the Company adjusts the promised amount of consideration by the change of the time value of money. A significant financing element appears in the contract if the distribution of the payments over time agreed by the parties (expressed or implied) gives the customer or the Company significant benefits on account of financing the transfer of the goods or services to the customer. To determine the transaction price, the Entity adjusts the promised amount of consideration by the significant financing component, using the discount rate which would be applied in the case of conclusion of a separate financing transaction between the Company and its customer at contract inception.

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

The Company capitalizes additional costs associated with efforts aimed at executing the contract provided if it expects to recover such costs within a timeframe not longer than one year from the date of incurring the costs. Any costs which the Entity 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. Capitalized costs are presented in prepayments and accruals, and are depreciated using the straight-line method over the anticipated term of the contract.

Financial activity revenues and expenses

Financial income recognized in the profit and loss account includes mainly interest on loans granted and positive foreign exchange differences. Other elements that may comprise financial income are commissions, 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, foreign exchange differences, 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, and losses on the settlement of derivatives.

Uncertainty of estimates

In preparation of the standalone financial statements, the Company's 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 Entity's financial data presented in such notes in the future.

- impairment for other intangible assets (see Note 1.2)
- impairment for shares in subsidiaries (see Note 2)
- fair value measurement of loans granted to subsidiaries (see Note 3.1)
- share-based payment arrangements (see Note 15)

In the reporting period, no changes were made in the methods used to make estimations, compared to 2021.

Seasonality of business

The Company's business is not seasonal.

Business combinations and loss of control

During the period of 12 months of 2022, there were no business combinations or loss of control in the Entity. There were no such events in 2021 either.

Additional notes and explanations to the annual standalone financial statements

Note 1.1 Property, plant and equipment

As at 31 December 2022 and 31 December 2021, the Company did not have any undepreciated property, plant and equipment. As at 31 December 2022 and 31 December 2021, there were no contractual obligations related to the purchase of property, plant and equipment. The Company has no property, plant and equipment used under finance lease agreements.

Note 1.2 Intangible assets

Intangible assets (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Computer software	45	51
Total	45	51

Estimates:

As at each balance sheet date, the Company assesses whether there are any objective premises that may indicate impairment of other intangible assets. As a rule, depreciation is calculated using the straight-line method over the estimated useful life of the asset. The amount of depreciation rates is determined on the basis of the expected period of economic usability of other intangible assets. At least once a year, the Company reviews the adopted useful lives based on current estimates.

Note 1.2.1 Movement in intangible assets by type

Other intangible assets (amounts expressed in thousands USD)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Gross value at the beginning of the period	64	64
Additions	-	-
Reductions	-	-
Gross value at the end of the period	64	64
Accumulated depreciation at the beginning of the period	13	7
Additions	6	6
Reductions	-	-
Accumulated depreciation at the end of the period	19	13
Net value at the beginning of the period	51	57
Net value at the end of the period	45	51

Note 1.3 Expenditures on non-financial non-current assets and on environmental protection incurred in the last year and planned for the next year

In the period from 1 January to 31 December 2022 and the comparable period of 2021, the Company did not incur any expenditure on non-current assets, including expenditure on environmental protection.

In 2023, Silvair, Inc. it does not plan to incur any expenditure on non-financial non-current assets, including environmental protection.

Note 2 Financial assets (long-term)

Financial assets (long-term) (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Interests in subsidiaries	26 843	12 344
Total	26 843	12 344

The line item "Interests in subsidiaries" includes 100% shares in Silvair Sp. z o.o. with its registered office in Kraków and 9% shares in Sway Sp. z o.o. with its registered office in Kraków. The remaining 91% of shares in Sway Sp. z o.o. is held by Silvair Sp. z o.o.

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

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

Silvair, Inc. raises financing through issue of shares and debt securities convertible into the Company's shares of new issue (Convertible Promissory Notes) ("Convertible Securities"). Due to the nature of the conducted business and the structure of the Group, the Company distributes a clear majority of the raised funds to the subsidiary Silvair Sp. z o.o. in the form of successive loan tranches. These loans are from time to time converted together with interest into the capital of Silvair Sp. z o.o. The most recent conversion took place in December 2022. As part of that conversion, the Company took up 130,000 new shares in Silvair Sp. z o.o. for PLN 64.58 million. In line with the Company's policy to date, the Board takes into account the possibility of converting further tranches of granted loans into the capital of Silvair Sp. z o.o. over next years.

The Company has conducted impairment tests for shares held in companies, determining their recoverable value. Due to the nature of its activities and business assumptions, the Company conducted shares impairment test jointly for the shares in Silvair Sp. z o.o. and Sway Sp. z o.o.

The recoverable amount was determined on the basis of the net profits generated by both companies jointly, using the discounted cash flow model.

The following assumptions and estimates were made in the calculations:

- The tests are prepared on the basis of an internal financial forecast of Silvair Sp. z o.o. jointly with Sway Sp. z o.o., based on the discounted cash flow method.
- Due to the innovative nature of the commercialized technology, which is the basis of the subsidiaries' business, a 10-year projection period has been adopted.
- To determine the discount rate, the weighted average cost of capital is used. The WACC value calculated for the needs of the tests in 2022 was: 17,91 %.
- The revenue growth rate in the subsequent years was based on the so-called S curve which is characteristic for the implementation of new technologies;
- It was assumed that during the projection period, the Group, and thus the cash-generating unit, will achieve business maturity.
- The pace and scale of acquiring new customers, which translates into the results of subsidiaries, were based on historical data regarding already contracted customers and the scaling of the sales team, taking into account the appropriate cost relationship.
- If the total recoverable amount is higher than the total carrying amount of interests in subsidiaries, there is no indication for recognizing impairment losses for the interests.

When conducting impairment tests and preparing the financial forecast, the economic and financial impact of the COVID'19 pandemic were also taken into account.

Balance sheet item (amounts expressed in thousands USD)	Carrying amount as at 31.12.2022	Recoverable value
Interests in subsidiaries	26 843	39 251
Total	26 843	39 251

Based on the estimates made, in the opinion of the Board, the conducted tests have not confirmed impairment of the shares as at the end of 2022. In the opinion of the Board, it is not probable that the key assumptions used to estimate the value in use of the shares will change in such a way that would result in determining the recoverable amount of the shares below their carrying amount.

Note 3.1 Financial assets (current)

Financial assets (current) (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Loans granted to subsidiaries	-	13 372
Total	-	13 372

The loans granted to subsidiary Silvair Sp. z o.o. were denominated in PLN or USD. The interest rate on the loans was fixed and amounted to 5% per annum. As at 31 December 2021, the balance of loans denominated in PLN amounted to USD 7,890 thousand, and the balance of loans denominated in USD was USD 5,482 thousand. During the reporting period, the Entity granted an additional loan in the amount of USD 1,442

thousand and received USD 220 thousand as repayment. Interest accrued for 2022 amounted to USD 553 thousand.

The loan management model provided for the possibility of settling loans in two ways, i.e. by returning the transferred cash together with interest due, or by converting the granted loans into equity in subsidiaries. Neither of these forms of settlement was definitive, and this situation meant that these loans could be classified either as assets held in a model based solely on the collection of contractual cash flows, or assets held under a model based on both the collection of contractual cash flows and the sale of those assets (IFRS 9.4.1.2-4.1.2A), and therefore they were classified as financial assets measured at fair value through profit or loss.

On 8 December 2022, there was a conversion of the loan granted by Silvair, Inc. to share capital and supplementary capital of Silvair Sp. z o. o. As at the conversion date, the total value of the granted loan with interest amounted to USD 14,404 thousand. Under the set-off agreement, Silvair, Inc. took up 130,000 new shares with a nominal value of PLN 50 in Silvair Sp. z o. o.

Financial assets (current) (amounts expressed in thousands USD)	01.01.2022 -31.12.2022	01.01.2021 - 31.12.2021
At the beginning of the period	13 372	11 115
Additions*	2 789	2 280
Reductions*	16 161	23
At the end of the period	-	13 72

* Additions i reductions include foreign exchange differences from the valuation of loans granted in PLN

The fair value of the loans granted is same as their carrying amount due to the maturity date falling within one year from the balance sheet date and the fact that the nominal interest rate of the loans was set at the rate equal to the interest rate of the external financing obtained by the entity. The Company obtains such financing in the form of bonds convertible into shares bearing an interest rate of 5% per annum. Therefore, the interest rate at this level was considered an appropriate level of the market interest rate.

For loans granted, the Company considers them to have low credit risk if they are not past due as of the evaluation date and the borrower has confirmed the outstanding balance.

With regard to assets recognized in the statement of financial position at fair value, additional information on the measurement methods and levels of fair value is presented in the Information on the fair value of financial instruments.

Estimates:

The loan is measured at fair value using the market rate corresponding to the interest rate of external financing obtained by the entity in the form of bonds convertible into shares. The market interest rate adopted for the valuation is the result of the judgment and estimate of the Board and has an impact on the value of the financial asset presented in the balance sheet in the form of loans granted to subsidiaries. The sensitivity of the measurement to the change of the adopted discount rate is presented in the Information on the fair value of financial instruments.

Note 3.2 Cash and cash equivalents

Cash and cash equivalents (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Cash on hand	-	-
Cash in bank	19	730
Other cash (term deposits)	-	-
Total	19	730

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

The line item “Other adjustments resulting from operating activity” shows the value corresponding to the value of the share option capital calculation relating to the employees of Silvair, Inc.

Note 3.3 Prepayments and accruals

Prepayments and accruals (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Fees for conferences	16	17
Total	16	17

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

Note 4 Share capital

Share capital of the Entity as at 31.12.2022.

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	14 871 719	1 487	27 861	26 374
Preferred Stock	960 000	96	125	29
Total	15 831 719	1 583	27 986	26 403

The par value of one share is USD 0.1. The number of shares expressed in single units.

Share capital ownership structure	Number of shares	% of shares	Number of votes ⁽¹⁾	% of votes
Rafał Han	1 930 465	12,19	3 562 465	17,27
Szymon Stupik	1 902 340	12,02	3 547 500	17,19
Adam Gembala	1 018 760	6,43	2 145 520	10,40
Chris Morawski	1 880 945	11,88	1 880 945	9,12
Krzysztof Januszkiewicz	1 880 867	11,88	1 880 867	9,12
Other shareholders holding less than 5% of shares	7 218 342	45,60	7 614 422	36,90
Total	15 831 719	100,00	20 631 719	100,00

¹⁾ Z Pursuant to the Certificate of Incorporation: (i) a holder of one 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. The Company's shareholders do not hold any other voting rights than the rights specified above

The value of the share capital in 2022 increased due to the issue of the Company's common shares for the Company's associates and employees under the Company's Stock Plan described in the Company's prospectus approved by the Polish Financial Supervision Authority on 25 June 2018.

On 15 December 2022, the conversion of cash receivables from securities convertible into common shares of the new issue of the Company ("Convertible Securities") with a total nominal value of USD 2,100 thousand was to take place. Due to the lack of ability to meet the conditions set out in the Convertible Securities purchase agreements, concerning in particular the limits for admitting the converted shares to public trading, the Company - in consultation with the bondholders - decided to postpone the conversion date to the first quarter of 2023. In 2022, no redemption or repayment of non-equity and equity securities was recorded.

As at 31 December 2022, out of 15,831,719 issued shares, 15,811,019 shares have been paid in full.

Share capital of the Entity as at 31.12.2021

Type	Number of shares	Par value (USD '000s)	Share subscription price (USD '000s)	Share premium account (USD '000s)
Common Stock	14 623 106	1 462	27 597	26 085
Preferred Stock	960 000	96	125	29
Total	15 583 106	1 558	27 722	26 114

The par value of one share is USD 0.1. Number of shares expressed in single units.

Share capital ownership structure	Number of shares	% of shares	Number of votes	% of votes
Rafał Han	1 914 455	12,29	3 546 455	17,40
Szymon Stupik	1 902 340	12,21	3 547 500	17,40
Adam Gembala	1 018 760	6,54	2 145 520	10,53
Chris Morawski	1 781 888	11,43	1 781 888	8,74
Krzysztof Januszkiewicz	1 055 865	6,78	1 055 865	5,18
Other shareholders holding less than 5% of shares	7 909 798	50,75	8 305 878	40,75
Total	15 583 106	100,00	20 383 106	100,00

As at 31 December 2021, out of 15,583,106 issued shares, 15,569,306 shares have been paid in full.

Note 5 Capital from revaluation of options

Capital from revaluation of options (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Valuation of stock options under IFRS 2	491	538
Total	491	538

See Note 15 for additional information on valuation of options.

Note 6.1 Other capital

Other capital (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Supplementary capital	27 938	27 699
Total	27 938	27 699

Note 6.2 Movement in other capital

Movement in other capital (amounts expressed in thousands USD)	01.01.2022 r. – 31.12.2022 r.	01.01.2021 r. – 31.12.2021 r.
At the beginning of the period:	27 699	24 582
Exercise of stock options for Company shares	241	238
Expenditures incurred in connection with the stock issue	-	-50
Issue of new shares	-	1 117
Unpaid capital which has been called up	-2	-
Issue of shares in connection with the exercise of convertible bonds	-	1 812
At the end of the period:	27 938	27 699

Note 7 Retained earnings

Retained earnings (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Accumulated losses brought forward	-5 660	-4 692
Total	-5 660	-4 692

Note 8 Earnings (loss) per share

Earnings/(loss) per share are calculated by dividing the net profit/(loss) for the reporting period by the weighted average number of issued 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 Entity in the period from 1 January 2021 to the publication date.

Earnings/(loss) per share in the period covered by the financial statements (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Weighted average number of the entity's shares in the period*	15 752 745	13 608 994
Diluting options*, including:	2 373 072	3 403 963
Under option plan	478 729	866 300
Under bonds convertible into shares	1 894 343	2 537 663
Weighted average number of the entity's shares in the period after diluting options*	18 125 817	17 012 957
Continued operations		
Earnings/(loss) per share (USD)	-0,07	-0,07
Diluted earnings/(loss) per share (USD)	-0,06	-0,06
Discontinued operations		
Earnings/(loss) per share (USD)	-	-
Diluted earnings/(loss) per share (USD)	-	-
Discontinued operations		
Earnings/(loss) per share (USD)	-0,07	-0,07
Diluted earnings/(loss) per share (USD)	-0,06	-0,06

* Amounts were updated in 2020 following recalculation

Note 9 Liabilities and provisions

Note 9.1 Trade liabilities

Trade liabilities (amounts expressed in thousands USD)	31.12.2022	31.12.2021
to related entities	-	-
to other entities	73	134
Total	73	134

Aging structure of trade liabilities (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Current	73	80
Overdue, including:	-	54
up to one month	-	-
over 1 month to 3 months	-	-
over 3 months to 6 months	-	54
over 6 months to 1 year	-	-
over 1 year	-	-
Total	73	134

Note 9.2 Other liabilities (current and non-current)

Other liabilities (non-current) (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Bonds convertible to shares	1 250	-
Interest on bonds convertible to shares	32	-
Total	1 282	-

Other liabilities (current) (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Bonds convertible to shares	2 100	2 100
Interest on bonds convertible to shares	250	145
Total	2 350	2 245

Liabilities from bonds convertible to shares (amounts expressed in thousands USD)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
At the beginning of the period	2 245	3 985
Additions	1 387	189
Reductions	-	-1 929
At the end of the period	3 632	2 245

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").

On 9 June 2022, the Company's Board of Directors adopted a resolution approving incurring liabilities up to a total par value of USD 3.0 million in the form of another issue of Convertible Securities.

As part of the aforementioned issues, until 31 December 2022 the Company has issued Convertible Securities with a total par value of USD 6.762 million, of which Convertible Securities with a total par value of USD 3.412 million along with accrued interest were converted into shares of new issues.

Bonds convertible to shares (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Par value of issued bonds	3 350	2 100
Interest expense	282	145
Interest paid	-	-
Bond liability	3 632	2 245

As a result of the assessment it has been concluded that the bonds do not contain a equity element and have not been classified as compound financial instruments in accordance with IAS 32. Therefore they were fully recognized as liabilities measured at amortized cost.

Note 9.3 Short-term provisions

In 2022 and in 2021, the Entity did not recognize provisions for liabilities.

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

As at 31 December 2022 and 31 December 2021, the Company had no contingent liabilities. As at 31 December 2022 and 31 December 2021, the Company was not acting as a guarantor or surety and also had not drawn its own or received third party promissory notes as collateral or payment for a transaction.

Note 11 Breakdown of costs

(amounts expressed in thousands USD)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Depreciation and amortization	6	6
Consumption of materials and energy	-	-
External services	202	78
Taxes and fees	-	-
Payroll, including share-based payments (Note 15)	508	683
Social security and other benefits	-	-
Other costs by nature	1	1
Value of products and materials sold	-	-
Total costs by type	717	768
Movement in inventory of products and production cost of products for own use (development work)	-	-
Cost of sales	-	-
Selling and distribution expenses	215	202
General and administrative expenses	502	566
Total costs by function	717	768

Note 11.1 Other operating income and expenses

Other operating income (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Provisions for liabilities - reversals	-	-
Other	-	-
Total	-	-

Other operating expenses (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Provisions for liabilities	-	-
Other	16	12
Total	16	12

Note 12 Financial income

Financial income (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Interest, including:	553	535
Interest on bank deposits and accounts	-	-
Interest on loans to related entities	553	535
Other	-	-
Total financial income	553	535

Note 13 Financial costs

Financial costs (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Interest, including:	137	189
To other entities	137	189
Interest on bonds convertible to shares	137	189
Exchange rate differences	816	533
Other	-	-
Financial costs	953	722

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

Item (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Gross loss	-1 133	-967
Tax	1	1
Impact of movement in asset on deferred tax	-	-
Impact of movement in liability on deferred tax	-	-
Total charges to profit before tax	1	1

The U.S. tax system consists of two tiers. The first tier is the federal tax, which is unified for all the companies operating in the U.S., while the second tier is a state tax. Despite the accounting losses it incurs, the Company still pays the state tax. The tax rate applicable to the parent company is 27.98% and includes federal tax and state tax. Reconciliation of income tax calculated with the tax rate applied by the Parent Company on the result before taxation with the income tax shown in the income statement is as follows:

(amounts expressed in thousands USD)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Result before tax	-1 133	-967
Tax rate applied by the Company after adjusting for federal benefits, including federal and state tax:	27,98%	27,98%
Income tax according to the national rate of the Parent Company	0	0
Income tax reconciliation		
Tax paid in the United States	-1	-1
Income tax	-1	-1

Note 15 Share-based payment agreements

Description of the agreements:

On 7 October 2016, the Board of Directors adopted a resolution on the introduction of the "2016 Stock Plan" specifying the rules for granting and exercising rights to acquire shares by employees and associates of the Company (Option Plan).

On 14 October 2016, the Parent company signed a 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 (i.e. members of the management board, key employees and associates of the Entity) under two option pools. As part of the "Option Pool" a total of 971,000 shares were to be awarded, and as part of the "Additional Option Pool" - a total of 482,000 shares were to be awarded. The Group considers the date of signing the KPI Agreement as the option granting date within the meaning of IFRS 2.

On 31 March 2020, the Board of Directors of Silvair, Inc. adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, covering all of the Entity's employees with the new program.

Summary of information on share-based payment programs launched at the Group is presented in the table below:

	Program I	Program II	Program III
Formal basis	KPI Agreement „Option Pool”	KPI Agreement „Additional Option Pool”	Resolution of the Board of Directors
Program launch date	14.10.2016	14.10.2016	31.03.2020
Number of shares in the pool	971 000	482 000	547 000
Option exercise price (USD)	0,10	0,10	0,10
Price of shares listed on the WSE as at the program launch date (USD)	n/a	n/a	0,61
Number of shares granted under the concluded option contracts	971 000	482 000	545 047
Number of shares acquired in the exercise of options	921 500	253 710	434 371

Option exercise structure in the period:

	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Pool of shares under the Option Plan	2 000 000	2 000 000
Number of shares available under the Option Plan at the beginning of the period	37 014	295 443
Increase of the pool of shares under the Option Plan	-	-
Number of shares granted under concluded option agreements	46 500	230 207
Number of shares taken up in exercise of the options	241 713	327 118
Number of shares remaining to be taken up in subsequent periods under option agreements	388 466	595 118
Number of shares released upon expiration of options	11 439	12 028
Number of shares to be granted under further option agreements at the end of the period	1 953	37 014

As at the publication date, the total number of shares taken up in exercise of the options has increased to 1,728,481, which is described in Note 16 - Events after the balance sheet date.

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

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

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

For the options granted after the public issue of the entity'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 Company's result in the reporting period – valuation of options:

(amounts expressed in thousands USD)	01.01.2022 - 31.12.2022	01.01.2021 - 31.12.2021
Management cost	100	217
Interests in subsidiaries	95	79
Capital from revaluation of options	195	296

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

(amounts expressed in thousands USD)	01.01.2022 31.12.2022	01.01.2021 31.12.2021
Other capital	239	238
Capital from revaluation of options	-242	-238

The change in capital from revaluation of options in the period between 01.01.2022 and 31.12.2022 resulted from the exercise of 241,713 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in performance of option contracts in the reporting period was USD 242 thousand.

The change in capital from revaluation of options in the period from 1 January to 31 December 2021 resulted from the exercise of 327,118 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the reporting period was USD 238 thousand.

Estimates:

The Group has measured the fair value of services received as consideration for equity instruments 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 16 Material events after the balance sheet date

The following material events took place after the balance sheet date:

Issue of Convertible Securities

On 7 February 2023, the Issuer informed in Current Report No. 3/2023 that the Company's Board of Directors adopted a resolution approving the incurring of liabilities up to the total nominal value of USD 5.0 million in the form of the issue of debt securities convertible to the Company's common stock of new issue (convertible promissory notes; "Convertible Securities") and setting the main terms of the issue of Convertible Securities.

Signing of an agreement with LSI Industries, Inc.

On 10 March 2023, Silvair, Inc. concluded an agreement with LSI Industries, Inc. based in U.S., for the supply, licensing and provision of services, on the basis of which the Company undertook to provide Silvair Firmware along with a complete set of tools for its implementation on the production line. Silvair Sp. z o.o. also undertook to grant a license for the use of the Firmware, and to provide related services.

Issue of Silvair, Inc. shares

On 27 March 2023, the Issuer informed in Current Report No. 7/2023 that there was a conversion of cash receivables from debt securities convertible into common stock of the new issue of the Company (convertible promissory notes) with a total nominal value of USD 2,100,000.00, with maturity falling in 2022 ("Convertible Securities"), under which the Company issued to the holders of Convertible Securities a total of 1,439,334 ordinary bearer shares of the Company within the authorized capital of the Company ("Shares"). The conversion of the Convertible Securities into Shares took place on the terms specified in the terms and conditions of the issue of Convertible Securities as set out in the resolutions of the Company's Board of Directors of 8 August 2019 and 10 August 2020. In addition, the Company also issued 168,574 ordinary bearer shares as part of the Company's authorized capital in connection with the exercise of rights by participants of the managerial option program introduced at the Company ("Management Shares").

After the conversion of the Convertible Securities and the issue of the Management Shares, the share capital of the Company amounts to USD 1,738,305.30 and consists of 17,383,053 shares of the Company with a nominal value of USD 0.10 each, including (i) 16,423,053 Common Shares of the Company, representing in total 94.48% of the Company's share capital and entitling to a total of 16,423,053 votes at the Company's general meeting, representing in total 74.03% of the total number of votes in the Company, and (ii) 960,000 shares of the Company's Founders Preferred Stock (each such share entitles to six votes at general meeting of the Company), representing in total 5.52% of the share capital of the Company and entitling to a total of

5,760,000 votes at the general meeting of the Company, representing in total 25.97% of the total number of votes in the Company.

Loans

On 5 January 2023, a loan agreement was signed between Silvair, Inc. (the borrower) and the subsidiary Silvair Sp. z o. o. (the lender) for a total value of USD 150,000. The loan repayment date was set for 31 March 2027. By the date of preparation of this report, the subsidiary granted a loan to the parent company in the amount of USD 85 thousand. On 13 March 2023, Silvair, Inc. repaid the loan liability. At the moment, Silvair, Inc. does not expect the occurrence of circumstances for incurring further loan tranches.

On 10 March 2023, a loan agreement was signed between the subsidiary Silvair Sp. z o. o. (borrower) and Silvair, Inc. (the lender) for a total value of USD 4 million. The loan repayment date was set for 31 March 2027. By the date of preparation of this report, Silvair, Inc. granted a loan to a subsidiary in the amount of USD 115 thousand.

Admission of Silvair, Inc. shares to public trading

On 11 April 2023, the Issuer informed - in its Current Report No. 10/2023 - that the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 13 April 2023, 1,607,908 ordinary bearer shares in the Company with a nominal value of USD 0.10 each ("Shares"), registered by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.) under ISIN code USU827061099; and 2) list the Shares in the continuous trading system: (i) in the listing class referred to in § 71 item 5) of Section IV of Detailed Stock Exchange Trading Rules in the UTP system; (ii) under an abbreviated name of "SILVAIR-REGS" and a ticker of "SVRS". On 17 April 2023, with reference to KDPW decision no. 297/2023 of 7 April 2023, 1,607,908 common bearer shares with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

Admission of Silvair, Inc. shares to public trading

On 17 April 2023, the Issuer informed in Current Report No. 12/2023 that Silvair, Inc. issued Convertible Securities with a total nominal value of USD 0.5 million within the liability limit and on the terms and conditions approved by a resolution of the Company's Board of Directors on 7 February 2023.

Note 17 Information on joint ventures

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

Note 18 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 Company causing financial loss for the Company. Credit risk arises in receivables, cash and cash equivalents, deposits, bonds purchased and security deposits paid.

The information on the risk associated with the loans granted to the Company is presented in Note 3 Financial assets (current). The Company manages the credit risk associated with cash through diversifying banks in which it deposits surplus cash. The Company uses the services of reputable banks so the credit risk is low and the amount of the write-off for expected credit losses is marginal and therefore is not recognized in the Standalone Financial Statements. The maximum exposure to credit risk resulting from financial assets is equal to the carrying amount of such items. A description of the credit risk assessment is presented in Note 3.1 Financial assets (current).

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

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

The Entity takes a number of actions aimed at securing the funding for its current and future capital requirements, primarily through concentrating efforts on commercialization of its products, in parallel with efforts aimed at achieving the breakeven point as soon as practicable, and raising funding in the transition period from: issue of convertible notes, stock issue addressed to existing shareholders and a group of new investors, and research and development support programs (subsidies). In 2021, the Company obtained funds from the issue of shares. The Company monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of for assets and liabilities and projected cash flows from operating activity.

Financial liabilities by maturity date as at 31.12.2022

(amounts expressed in thousands USD)	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans	-	-	-	-	-
Bond liabilities	2 350	-	-	1 371	-
Trade liabilities	-	73	-	-	-
Lease liabilities	-	-	-	-	-
Total	2 350	73	-	1 371	-

The measurement at amortized cost does not differ materially from the carrying amounts. The difference between the value at the amount due and the value according to the measurement at amortized cost for the bonds liabilities amounts to USD 4.7 thousand.

Financial liabilities by maturity date as at 31.12.2021

(amounts expressed in thousands USD)	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans	-	-	-	-	-
Bond liabilities	-	-	2 345	-	-
Trade liabilities	54	80	-	-	-
Lease liabilities	-	-	-	-	-
Total	54	80	2 345	-	-

The measurement at amortized cost does not differ materially from the carrying amounts. The difference between the value at the amount due and the value according to the measurement at amortized cost for the bonds liabilities amounts to USD 3.5 thousand.

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. Silvair, Inc. has granted a loan to its subsidiary in PLN, which is the currency in which it raised funds from the share issue. Due to the weakening of PLN against the U.S. dollar, the Entity is exposed to foreign exchange risk.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company does not invest any surplus funds in interest-bearing assets based on floating interest rates and accordingly it is not exposed to the risk related to changes in interest rates. The principal risk of changes in interest rates is related to debt instruments. In 2021 and

2020, the Company did not use any external debt instruments with a floating interest rate (loans and bonds), 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 Entity does not use financial instruments associated with price risk. The Company is not exposed to other price risk.

The Entity's financial risk management is coordinated by the Company in close collaboration with the 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 Entity's financial performance,
- fulfill planned financial forecasts by meeting relevant budget assumptions,
- achieve a rate of return on long-term investments and obtain optimal sources of funding for investment activities.

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

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

The Company assesses the risk associated with concentration of business partners, foreign currencies, markets and debt instruments as low.

Sensitivity analysis

As at 31 December 2022 and as at the end of 2021, the Company did not hedge its transactions denominated in foreign currencies. The table below 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 Entity's estimates, the impact of exchange rate fluctuations on the Company'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 01.01.2022 – 31.12.2022

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 companies.

Financial instruments by balance sheet items (amounts expressed in thousands USD)	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	26 843	-2 632	-	2 632	-
Loans	-	-	-	-	-
Cash	19	-	-	-	-
Cash in bank	19	-	-	19	-
Financial liabilities					
Debt securities	3 632	-	-	-	-
Trade liabilities	55	-2	-	2	-

Currency risk 01.01.2021 – 31.12.2021

Financial instruments by balance sheet items (amounts expressed in thousands USD)	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Loans	13 372	-562	-	562	-
Cash	730	-126	-	126	-
Cash in bank	730	-126	-	126	-
Financial liabilities					
Debt securities	2 445	-	-	-	-
Trade liabilities	134	-	-	-	-

Financial instruments by currency

Year ended 31.12.2022

Financial assets (amounts expressed in thousands USD)	USD	PLN	EUR	Total
Interest and shares	-	26 843	-	26 843
Loans granted, including:	-	-	-	-
Long-term	-	-	-	-
Short-term	-	-	-	-
Trade receivables	-	-	-	-
Cash and cash equivalents, including:	6	13	-	19
Cash in bank	6	13	-	19
Financial liabilities				
Bond liabilities	3 632	-	-	3 632
Trade liabilities	55	18	-	73

Year ended 31.12.2021

Financial assets (amounts expressed in thousands USD)	USD	PLN	EUR	Total
Loans granted, including:	5 482	7 890	-	13 372
Long-term	-	-	-	-
Short-term	5 482	7 890	-	13 372
Trade receivables	-	-	-	-
Cash and cash equivalents, including:	5	720	5	730
Cash in bank	5	720	5	730
Financial liabilities				
Bond liabilities	2 445	-	-	2 445
Trade liabilities	100	34	-	134

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item (amounts expressed in thousands USD)	31.12.2022 fair value	31.12.2022 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	
Loans	-	-	-	-	-	-
Cash	19	19	-	-	19	-

Financial liabilities by balance sheet item (amounts expressed in thousands USD)	31.12.2022 fair value	31.12.2022 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
Debt securities	3 632	3 632	-	3 632	-
Trade liabilities	73	73	-	73	-

Financial assets by balance sheet item (amounts expressed in thousands USD)	31.12.2021 fair value	31.12.2021 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	
Loans	13 372	13 372	13 372	-	-	-
Cash	730	730	-	-	730	-

Financial liabilities by balance sheet item (amounts expressed in thousands USD)	31.12.2021 fair value	31.12.2021 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
Debt securities	2 245	2 245	-	2 245	-
Trade liabilities	134	134	-	134	-

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

Year ended 31.12.2022

Financial assets (amounts expressed in thousands USD)	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Loans	A	553	-744	-	-	-191
Cash and cash equivalents	C	-	-72	-	-	-72
Total		553	-816	-	-	-263
Financial liabilities						
Bond liabilities	F	-137	-	-	-	-137
Total		-137	-	-	-	-137

Abbreviations used:

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

Year ended 31.12.2021

Financial assets (amounts expressed in thousands USD)	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Loans	A	535	-534	-	-	1
Cash and cash equivalents	C	-	1	-	-	1
Total		535	-533	-	-	2
Financial liabilities						
Bond liabilities	F	-189	-	-	-	-189
Total		-189	-	-	-	-189

Information on the fair value of financial instruments

Fair value is defined as the price that would be received for the sale of an asset or paid for transferring a liability in an orderly transaction between market participants at the measurement date.

The Company determines the fair value of financial assets and financial liabilities in such a way as to take into account market factors to the greatest possible extent. Fair value measurements were divided into three groups, depending on the origin of the input data for the measurement:

- Level 1 – input data at level 1 are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity has access to at the measurement date,
- Level 2 – input data at level 2 is input data other than quoted prices included at Level 1 that is observable for a given asset or liability, either directly or indirectly,
- Level 3 - input data at level 3 is unobservable input data for a given asset or liability.

The measurement of financial assets and financial liabilities (including at level 3) is carried out by the accounting team, and in cases requiring specialist knowledge, by an external entity. The measurement technique is tailored to the individual characteristics of the instrument being valued, maximizing the use of information from the market. The team reports to the CFO. Measurement procedures are discussed and updated as necessary, at least once a year. At least once a quarter, as part of the quarterly and annual reporting process, the team analyzes individually for each financial asset and financial liability whether input data is available that would allow the use of a higher-level measurement technique. At the same time, it is analyzed whether the input data used so far is still available and whether there is no need to lower the measurement level. A potential change in the level takes place from the last day of the given quarter.

With regard to financial assets and liabilities which, in accordance with the Company's accounting policy, were included in the standalone statement of financial position at fair value, additional information on the methods of measurement and levels of fair value is presented below in Note 3.1 Financial assets (short-term).

Additional information on the methods of measuring financial instruments measured at fair value in the statement of financial position.

As at 31.12.2022

Financial instrument class (amounts expressed in thousands USD)	Note no.	Level 1	Level 2	Level 3	Total
Assets					
Loans granted to subsidiaries	3.1	-	-	-	-
Net fair value		-	-	-	-

As at 31.12.2021

Financial instrument class (amounts expressed in thousands USD)	Note no.	Level 1	Level 2	Level 3	Total
Assets					
Loans granted to subsidiaries	3.1	-	-	13 372	13 372
Net fair value		-	-	13 372	13 372

In the reporting period, there were no transfers between levels 1, 2 and 3 of the fair value of financial assets and liabilities.

Loans granted to subsidiaries were measured using the income method consisting in discounting future cash flows based on a discount rate for similar instruments, i.e. bonds convertible into shares that have been obtained by the Company for many years. Due to the use of unobservable input data used to determine the fair value, the measurement of granted loans was classified to level 3. The fair value of granted loans is same as their carrying amount due to the maturity date falling within one year from the balance sheet date, and due to the fact that the nominal interest rate of the loans was set at the rate equal to the interest rate of the external financing obtained by the entity. The Company obtains such financing in the form of convertible bonds with a rate of 5% per annum. This rate was considered to be a proper approximation of the market interest rate.

Sensitivity of the applied measurement to the change of the adopted discount rate:

31.12.2022

Financial instrument by balance sheet items (amounts expressed in thousands USD)	Carrying amount of financial instruments	Impact on financial result before tax (increase by 1 percentage point)	Impact on financial result before tax (decrease by 1 percentage point)
Loans granted to subsidiaries	-	110	-

31.12.2021

Financial instrument by balance sheet items (amounts expressed in thousands USD)	Carrying amount of financial instruments	Impact on financial result before tax (increase by 1 percentage point)	Impact on financial result before tax (decrease by 1 percentage point)
Loans granted to subsidiaries	13 372	107	-107

The model provides for the possibility of settling loans in two ways, i.e. by returning transferred cash together with interest due, or by converting granted loans into equity in subsidiaries. As a result of the analysis of IFRS 9, it was decided that the measurement of loans granted to subsidiaries at fair value through profit or loss will be more appropriate.

Note 18.2 Capital risk management

The Company manages capital to maintain its capacity to continue its activity, taking into account the implementation of planned investments, so that it can generate returns for shareholders and bring benefits to other stakeholders, and also to maintain the optimum capital structure to reduce its cost. In line with the market practices, the Company is monitoring capital i.a. on the basis of the debt ratio. The debt 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, the Company assumes that its equity ratio will be maintained at no more than 50%.

Item (amounts expressed in thousands USD)	31.12.2022	31.12.2021
Debt	3 705	2 379
Equity	23 218	24 135
Total financial capital	26 923	26 514
Debt ratio	13,76%	8,97%

Note 19 Entity authorized to audit financial statements

The annual standalone financial statements prepared as at 31 December 2022 and the annual standalone financial statements prepared as at 31 December 2020 were audited by Grant Thornton Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa with its registered office in Poznań, ul. Abpa Antoniego Baraniaka 88E.

The net amount of the contractor's fee for auditing the annual standalone financial statements for 2022 was PLN 25,000.

The net amount of the contractor's fee for auditing the annual standalone financial statements for 2021 was PLN 12,000.

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

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

Note 21 Compensation of key management personnel

Compensation of key management personnel on account of short-term employee benefits, paid and due:

Item (amounts expressed in thousands USD)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Szymon Stupik	84	84
Adam Gembala	84	84
Rafał Han	84	84
Total compensation paid and due	252	252

Compensation of key management personnel on account of share-based payment agreements

Item (amounts expressed in thousands USD)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Szymon Stupik	-	-
Adam Gembala	-	-
Rafał Han	62	164
Total gross compensation	62	164

Total compensation of key personnel

Total compensation of key management (amounts expressed in thousands USD)	01.01.2022 – 31.12.2022	01.01.2021 – 31.12.2021
Adam Gembala	84	248
Szymon Stupik	84	84
Rafał Han	146	84
Total gross compensation	314	416

Note 22 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company (subsidiaries):

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

The Entity holds directly the right to 9% shares in Sway Sp. z o.o. and 100% shares in Silvair Sp. z o.o. which in turn holds 91% shares in Sway Sp. z o.o.

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

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

As at 31 December 2022, there was no receivable for Silvair, Inc. under the loan granted to Silvair Sp. z o. o. On 8 December 2022, there was a conversion of the loan granted by Silvair, Inc. to share capital and supplementary capital of Silvair Sp. z o. o. As at the conversion date, the total value of the granted loan with interest amounted to USD 14,404 thousand. Under the set-off agreement, Silvair, Inc. took up 130,000 new shares with a nominal value of PLN 50 in Silvair Sp. z o. o.

Trade settlements within the Group

As at 31 December 2022 and as at 31 December 2021, Silvair, Inc. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities.

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

Entities having personal ties with Group companies

Transactions between entities with personal ties:

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

Transactions with the key management personnel and shareholders

Key management personnel:

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

Rafał Han – Chief Executive Officer

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

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

Paweł Szymański – Non-executive Director

Christopher Morawski – Non-executive Director

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

The annual standalone financial statements for the period from 1 January to 31 December 2022 (including comparative data) were approved for publication by the Board of Directors on 20 April 2023.

Rafał Han

Chief Executive Officer

Szymon Słupik

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

Adam Gembala

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

Paweł Szymański

Director

Christopher Morawski

Director