Annual consolidated financial statements of the Silvair, Inc. Group

Kraków, 16 April 2021

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General information

Parent Company

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 (Inc.)**
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.**

Group’s business

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

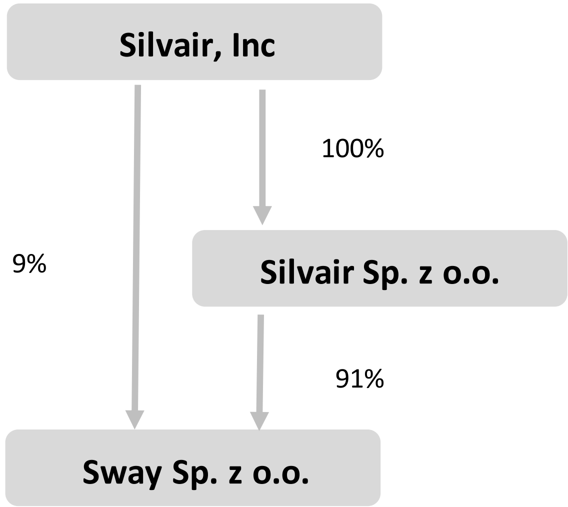
The Group's strategic goal is to achieve a leading position on the market of modern technological solutions for the IoT that are based on the Bluetooth Mesh standard. The main factor contributing to our competitive advantage is our participation and the role we play in the Bluetooth Special Interest 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 has business presence on the global market, with particular emphasis on the North American and European markets.

The Group

The Group's structure as at 31.12.2020.



Functional and presentation currency

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

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

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

- assets and liabilities in each presented statement of financial position are translated at the closing exchange rate in effect on that balance sheet date;
- income and expenses in each statement of comprehensive income are translated at average exchange rates (unless the average exchange rate is not a satisfactory approximation of the cumulative effect of exchange rates on the transaction dates – in such a case, income and expenses are translated at the exchange rates in effect on the relevant transaction dates)
- equity of subsidiaries and interests in subsidiaries are excluded for consolidation purposes at the historical exchange rate as at the date of taking up the shares; and
- any resulting foreign exchange differences are cumulatively recognized in other comprehensive income as a separate component of equity.

Presentation periods

The annual consolidated financial statements have been prepared as at 31 December 2020 and cover the period of 12 months, i.e. from 1 January 2020 to 31 December 2020.

For the data presented in the annual consolidated statement of financial position and off-balance sheet items, comparative financial data were presented as at 31 December 2019

For the data presented in the annual consolidated profit and loss account, annual consolidated statement of comprehensive income, annual consolidated statement of changes in equity and consolidated cash flow statement, comparative financial data were presented for the period from 1 January 2019 to 31 December 2019.

Going concern assumption

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

At the end of 2019, news from China regarding the COVID-19 coronavirus emerged for the first time, and in the first quarter of 2020 the virus spread practically all over the world. From the very beginning, the Board has been monitoring the situation closely and looking for ways to minimize the impact of the pandemic on the Group’s operations

In March 2020, in connection with the COVID-19 coronavirus pandemic, the Parent Company’s Board identified the risk of sales disruptions caused by interruption to lighting component supply chains of the partners with whom the Group cooperates, as well as the risk of postponing lighting infrastructure modernization investments by customers due to widespread lockdown. The Board also identified major difficulties with access to capital which – at this stage of commercialization of the Group’s products – is an important source of financing of its day-to-day activity.

This situation may raise doubts regarding the continuation of the Group’s operation. The Parent Company's Board has therefore implemented measures to eliminate these threats.

In connection with the above, the Parent Company’s Board has adequately reviewed the Group’s sales assumptions and recommended the subsidiaries to reduce their operating costs, i.a. by reducing employment and changing remuneration conditions for key employees and associates who are necessary to implement the Group's strategy and maintain its competitive advantage. The process of optimizing the Group's operating costs was carried out in such a way as not to significantly disrupt the development of the Group’s products and the implementation of contracts with the Group’s key partners, while enabling restoration of the full scope of market activity after the pandemic effects cease to occur.

On 31 March 2020, the Company’s Board of Directors adopted a resolution on increasing the number of shares under the Option Plan from 1,453,000 shares to 2,000,000 shares, and granting options for 523,312 shares to designated employees. The introduction of the Option Plan allowed retaining key employees in the Group and maintaining high motivation across all teams.

Due to the reduced employment in the field of development, changes have been introduced to the product map and the schedule for introducing new products to the market. All these changes have been agreed with the partners in terms of obligations resulting from the concluded agreements as well as activities required to be taken by the Group to implement its strategy and maintain its competitive advantage.

Despite the economic stagnation caused by the COVID 19 coronavirus pandemic, in the first half of 2020 the Group managed to negotiate and conclude several contracts with new partners. Along with the gradual lifting of restrictions (mainly the lockdown), the economic situation of the Group also improved. In June, the Group sold over 10,000 firmware licenses, which was the best monthly result since the commencement of commercialization.

In 2020, the Company obtained funds from investors for financing of its operations in the total amount of USD 4.21 million, including: USD 1.61 million from the execution of a new issue of common stock, and USD 2.6 million from the issue of Convertible Securities. From the date of approval of the issue (i.e. 8 August 2019) to 31 December 2020, the Company issued Convertible Securities with a total nominal value of USD 5.512 million.

In the opinion of the Board, the total amount of funds obtained from the issue of Convertible Securities will allow to finance the Group's operations over the next 12 months.

Composition of the corporate bodies of the Parent Company as at 31.12.2020

Board of Directors:

Szymon Słupik — President

Adam Gembala — Vice-President,
Secretary and Treasurer

Rafał Han — Director

Paweł Szymański —Director

Christopher Morawski — Director

Officers:

Rafał Han — Chief Executive Officer

Szymon Słupik — Chief Technology Officer (CTO)

Adam Gembala — Chief Financial Officer (CFO)

Consolidation

Silvair, Inc. is the Group’s Parent Company preparing annual consolidated financial statements. The reporting entity Silvair, Inc. is, at the same time, the ultimate parent company that prepares consolidated financial statements.

As at 31 December 2020 and as at 31 December 2019, consolidation encompasses Silvair, Inc. and two subsidiaries: Silvair Sp. z o.o. and Sway Sp. z o.o. As at 31 December 2020, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and 9% shares in Sway Sp. z o.o.

As at 31 December 2019, Silvair, Inc. held directly 100% shares in Silvair Sp. z o.o. and 9% of rights to shares in Sway Sp. z o.o. and, indirectly through Silvair Sp. z o.o., 91% shares in Sway Sp. z o.o. The financial data of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with IFRS, are prepared for the same reporting period as the statements of the Parent Company, applying consistent accounting principles, based on uniform accounting principles applied to transactions and similar economic events. IFRS conversion adjustments are made in order to eliminate any discrepancies in the application of accounting policies.

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

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

Selected financial data

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

Average USD/EUR exchange rates in the periods covered by the annual consolidated 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
01.01.2020 – 31.12.2020	1.1459	1.0684	1.2279	1.2279
01.01.2019 – 31.12.2019	1.1190	1.0893	1.1524	1.1213

Average USD/PLN exchange rates in the periods covered by the annual consolidated 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
01.01.2020 – 31.12.2020	0.2561	0.2344	0.2758	0.2661
01.01.2019 – 31.12.2019	0.2601	0.2490	0.2685	0.2633

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

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

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

Selected financial data translated as at the balance sheet date:

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

Item	USD		EUR		PLN	
	01.01.2020 –31.12.2020	01.01.2019 –31.12.2019	01.01.2020 –31.12.2020	01.01.2019 –31.12.2019	01.01.2020 –31.12.2020	01.01.2019 –31.12.2019
Net revenue on the sale of products, goods and materials	372	177	325	158	1 453	680
Profit/(loss) from operating activities	-2 473	-3 725	-2 158	-3 329	-9 656	-14 319
Profit (loss) before tax	-2 547	-3 881	-2 223	-3 468	-9 945	-14 919
Profit (loss) of the period	-2 609	-3 906	-2 277	-3 491	-10 187	-15 015
Net cash flows from operating activities	-726	-1 939	-634	-1 733	-2 835	-7 454
Net cash flows from investing activities	-1 811	-2 824	-1 580	-2 524	-7 071	-10 855
Net cash flows from financing activities	4 060	2 726	3 543	2 436	15 854	10 479
Total net cash flows	1 523	-2 037	1 329	-1 820	5 948	-7 830

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

For line items of the statement of financial position

Item	USD		EUR		PLN	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Total assets	14 539	12 389	11 841	11 048	54 637	47 050
Liabilities and provisions for liabilities	5 677	4 736	4 623	4 224	21 334	17 986
Non-current liabilities	2 597	484	2 115	432	9 759	1 838
Current liabilities	3 080	4 252	2 508	3 792	11 575	16 148
Equity attributable to shareholders of the parent company	8 862	7 653	7 217	6 825	33 303	29 064
Share capital	1 343	1 143	1 094	1 019	5 047	4 341
Number of shares	13 425 927	11 425 670	13 425 927	11 425 670	13 425 927	11 425 670
Weighted average number of shares*	11 623 851	11 385 512	11 623 851	11 385 512	11 623 851	11 385 512
Earnings/(loss) per share (in USD, EUR and PLN)	-0.22	-0.34	-0.17	-0.30	-0.88	-1.30
Book value per share (in USD, EUR and PLN)	0.66	0.67	0.54	0.60	2.87	2.55

* the amount was updated following recalculation in the period

Representation by the Board of Directors

These annual consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed in the European Union, which have been published and have come into effect as at 1 January 2020.

Silvair, Inc. Group 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 2020 are presented in the Report of the Board of Directors of Silvair, Inc. on the activity of the Silvair, Inc. Group for 2020.

Annual consolidated financial statements of the Silvair, Inc. Group

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

Annual consolidated statement of financial position

	Note no.	31 December 2020	31 December 2019
A. Non-current assets		**11 512**	**10 752**
I. Costs of development work	**1**	10 772	9 896
II. Intangible assets	**2**	70	17
III. Property, plant and equipment	**3**	16	34
IV. Right-of-use assets	**3.7**	71	171
V. Financial assets	**4**	7	7
VI. Deferred tax assets	**5**	576	627
B. Current assets		**3 027**	**1 637**
I. Inventory	**6**	5	9
II. Trade receivables	**7**	103	48
III. Other receivables	**8**	72	223
IV. Prepayments and accruals	**9**	28	61
V. Cash and cash equivalents	**11**	2 819	1 296
Total assets		**14 539**	**12 389**

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

	Note no.	31 December 2020	31 December 2019
A. Equity		**8 862**	**7 653**
Equity attributable to the shareholders of the parent company		**8 862**	**7 573**
I. Share capital	**12**	1 343	1 143
II. Capital from revaluation of options	**13**	483	375
III. Other capital	**14**	24 819	21 253
IV. Minority interest transactions	**14.3**	- 365	- 445
V. Capital from foreign exchange differences from translation of foreign operations		898	954
VI. Retained earnings	**15**	-15 707	-11 840
VII. Financial result of the current period		-2 609	-3 867
Equity attributable to non-controlling entities		**-**	**80**
B. Non-current liabilities		**2 597**	**484**
I. Deferred tax liabilities	**17**	20	24
II. Liabilities on bonds convertible to shares	**20**	2 188	-
III. Other non-current liabilities	**18**	-	11
IV. Prepayments and accruals	**21**	389	449
C. Current liabilities		**3 080**	**4 252**
I. Trade liabilities	**19**	372	231
II. Liabilities from contracts with customers	**20.4**	131	36
III. Lease liabilities	**18.1**	71	171
IV. Liabilities on bonds convertible to shares	**20.1.1**	1 797	2 954
V. Other current liabilities	**20.1**	227	345
VI. Other short-term provisions	**20.3**	45	82
VII. Prepayments and accruals	**21**	437	433
Equity and liabilities		**14 539**	**12 389**

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

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

Annual consolidated profit and loss account	Note no.	01.01.2020 –31.12.2020	01.01.2019 –31.12.2019
A. Revenue	**22**	**372**	**177**
B. Cost of sales		**804**	**730**
C. Gross sales result		**-432**	**-553**
I. Selling and distribution expenses		467	599
II. General and administrative expenses		1 715	1 913
D. Net sales result		**-2 614**	**-3 065**
I. Recognition/reversal of impairment losses through costs of development work	**25**	-	-688
II. Other operating income, including:	**24**	172	91
Grants settled over time		62	63
III. Other operating expenses	**25**	19	63
IV. Losses on account of expected credit losses	**25**	12	-
E. Operating result		**-2 473**	**-3 725**
I. Financial income, including:	**27**	171	21
Foreign exchange differences		171	11
II. Financial costs, including:	**28**	245	177
Interest		209	61
F. Result before tax		**-2 547**	**-3 881**
I. Income tax	**29**	62	25
Current part		15	23
Deferred part		47	2
G. Net profit/(loss) for the period		**-2 609**	**-3 906**
Profit/(loss) attributable to:			
Shareholders of the parent company		-2 609	-3 867
Non-controlling interest		-	-39

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

		01.01.2020 –31.12.2020	01.01.2019 –31.12.2019
Net earnings/(loss) per share (in USD)	**16**	-0,22	-0,34
Diluted earnings/(loss) per share (in USD)		-0,19	-0,31

Annual consolidated statement of other comprehensive income	**01.01.2020 –31.12.2020**	**01.01.2019 –31.12.2019**
Net profit/(loss) for the period	**-2 609**	**-3 906**
Other comprehensive income	**-56**	**-80**
1. Other comprehensive income to be reclassified to result in the future	-56	-80
Foreign exchange differences from translation of foreign operations	-56	-80
2. Other comprehensive income not to be reclassified to result in the future	-	-
Total comprehensive income	**-2 665**	**-3 986**
Total comprehensive income attributable to:		
Shareholders of the parent company	-2 665	-3 947
Non-controlling interest	-	-39

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

Annual consolidated statement of changes in equity

Annual consolidated statement of changes in equity	Share capital	Capital from reval. of options	Other capital	Minority interest transactions	Capital from foreign exchange differences	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 01.01.2020	**1 143**	**375**	**21 253**	**-445**	**954**	**-15 707**	**-**	**7 573**	**80**	**7 653**
Corrections of errors:	-	-	-	-	-	-	-	-	-	-
Adjustment associated with the right to acquire shares	-	-	-	-	-	-	-	-	-	-
Minority interest adjustment	-	-	-	-	-	-	-	-	-	-
At the beginning of the period 01.01.2020, corrected	**1 143**	**375**	**21 253**	**-445**	**954**	**-15 707**	**-**	**7 573**	**80**	**7 653**
Changes to equity in the period from 01.01 to 31.12.2020										
Exercise of stock options for Company shares	11	-431	431	-	-	-	-	11	-	11
Issue of new shares as part of the stock plan	82	-	1 532	-	-	-	-	1 614	-	1 614
Share issue costs	-	-	-61	-	-	-	-	-61	-	-61
Valuation of stock options under IFRS 2	-	539	-	-	-	-	-	539	-	539
Issue and conversion of bonds convertible to shares	107	-	1 664	-	-	-		1 771		1 771
Change in the group's structure (transactions with non-controlling entities)	-	-	-	80	-	-	-	80	-80	-
Total transactions with owners	**200**	**108**	**3 566**	**80**	**-**	**-**	**-**	**3 954**	**-80**	**3 874**
Result of the period	-	-	-	-	-	-	-2 609	-2 609	-	-2 609
Other comprehensive income for the period	-	-	-	-	-56	-	-	-56	-	-56
Total comprehensive income	**-**	**-**	**-**	**-**	**-56**	**-**	**-2 609**	**-2 665**	**-**	**-2 665**
At the end of the period 31.12.2020	**1 343**	**483**	**24 819**	**-365**	**898**	**-15 707**	**-2 609**	**8 862**	**-**	**8 862**

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

Annual consolidated statement of changes in equity	Share capital	Capital from reval. of options	Other capital	Minority interest transactions	Capital from foreign exchange differences	Retained earnings	Financial result	Total equity	Equity attributable to non-controlling entities	Total equity
At the beginning of the period 01.01.2019	**1 138**	**155**	**21 147**	**-**	**1 034**	**-12 573**	**-**	**10 901**	**407**	**11 308**
Corrections of errors:	**-**	**-**	**-**	**-445**	**-**	**733**	**-**	**288**	**-288**	**-**
Adjustment associated with the right to acquire shares	-	-	-	-445	-	445	-	-	-	-
Minority interest adjustment	-	-	-	-	-	288	-	288	-288	-
At the beginning of the period 01.01.2019, corrected	1 138	155	21 147	-455	1 034	-11 840	-	11 189	119	11 308
Changes to equity in the period from 01.01 to 31.12.2019										
Exercise of stock options for Company shares	1	-108	104	-	-	-	-	-3	-	-3
Issue of new shares as part of the stock plan	4	-2	2	-	-	-	-	4	-	4
Valuation of stock options under IFRS 2	-	330	-	-	-	-	-	330	-	330
Change in the group's structure (transactions with non-controlling entities)	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**5**	**220**	**106**	**-**	**-**	**-**	**-**	**331**	**-**	**331**
Result of the period	-	-	-	-	-	-	-3 867	-3 867	-39	-3 906
Other comprehensive income for the period	-	-	-	-	-80	-	-	-80	-	-80
Total comprehensive income	**-**	**-**	**-**	**-**	**-80**	**-**	**-3 867**	**-3 947**	**-39**	**-3 986**
At the end of the period 31.12.2019	**1 143**	**375**	**21 253**	**-445**	**954**	**-11 840**	**-3 867**	**7 573**	**80**	**7 653**

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

Annual consolidated cash flow statement

	Note no.	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
Profit (loss) before tax		**-2 547**	**-3 881**
Adjustments for:		**1 821**	**1 942**
1. Depreciation and amortization	**26**	1 123	1 184
2. Foreign exchange gains (losses)		-136	66
3. Interest and profit sharing (dividends)		207	50
4. Profit (loss) from investing activities		-3	-
5. Movement in provisions		-37	30
6. Movement in inventory		4	4
7. Movement in receivables		96	-111
8. Movement in current liabilities, except for loans and borrowings		71	117
9. Tax paid		-15	-23
10. Movement in prepayments and accruals		28	-217
11. Other adjustments resulting from operating activity	**11.1**	483	842
Net cash from operating activities		**-726**	**-1 939**
Proceeds		3	-
1. Disposal of intangible assets and property, plant and equipment		3	-
Expenditures		1 814	2 824
1. Purchase of intangible assets and property, plant and equipment	**2.2**	62	32
2. Expenditures incurred for development work	**1.2**	1 752	2 792
Net cash from investing activities		**-1 811**	**-2 824**
Proceeds		4 164	3 033
1. Net proceeds from issuing shares and additional capital contributions		3 335	111

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

2. Loans and borrowings drawn	-	-
3. Proceeds from the issue of debt securities	829	2 912
4. Interest	-	10
Expenditures	104	307
1. Repayment of loans and borrowings	15	127
2. Repayment of lease liabilities	83	161
3. Interest	6	19
Net cash from financing activities	**4 060**	**2 726**
Net cash flows	**1 523**	**-2 037**
Movement in cash	**1 523**	**-2 037**
Movement in cash on account of foreign exchange differences	-	-
Cash at the beginning of the period	**1 296**	**3 333**
Cash at the end of the period	**2 819**	**1 296**

Explanatory notes to the annual consolidated financial statements

Basis for preparation and accounting policies

Basis for preparation of the consolidated financial statements

These annual consolidated financial statements of the Group cover the period of 12 months ended on 31 December 2020 and have been prepared in accordance with the International Financial Reporting Standards (hereinafter "IFRS") and interpretations issued by the International Accounting Standards Board and approved by the European Union, effective for annual periods beginning on 1 January 2020.

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

Amendments to standards or interpretations

<u>New or amended standards and interpretations that have been in force since 1 January 2020 and their impact on the Group's consolidated financial statements:</u>

- Amendment to IFRS 3 "Business Combinations"

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

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

  The amendment applies to business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020, and to acquisitions of assets effected in or after this reporting period. In 2020, the Group did not make transactions covered by the scope of IFRS 3, therefore the change did not affect the data for the current year.

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

  The amendment entails the introduction of a new definition of the term "material" (in respect to an omission or misstatement in the financial statements). The previous definition included in IAS 1 and IAS 8 differed from the one included in the Conceptual Framework for Financial Reporting, which could cause difficulty in judgments made by entities preparing financial statements. The amendment will cause unification of definitions in all the applicable IASs and IFRSs. The changes did not affect the financial statements of the Group, as the judgments made so far in terms of materiality were consistent with those that would be made using the new definition.

  The change is effective for annual periods beginning on or after 1 January 2020

- Amendments to references to the Conceptual Framework in IFRS

The Board has prepared a revised version of the conceptual framework for financial reporting. Consequently, for the sake of consistency, the references to the conceptual framework contained in individual standards have been adapted accordingly. The amendments are effective for annual periods beginning on or after 1 January 2020, and they did not impact the Entity's financial statements.

- Amendments to IFRS 9, IAS 39 and IFRS 7

  The IAS Board has introduced amendments to hedge accounting principles in connection with the planned reform of benchmark interest rates (WIBOR, LIBOR etc.). These rates are often the hedged position e.g. in the case of IRS hedging. The planned replacement of the existing rates with new benchmark rates has caused doubts as to whether a forecast transaction is still highly probable, whether future hedged cash flows are still expected to occur, or whether there is an economic link between the hedged and the hedging position. The amendment to the standards has specified that the estimations should assume that changes to benchmark rates would not occur and therfore it will not have an impact on the fulfillment of the hedge accounting requirements. The amendments are effective for annual periods beginning on or after 1 January 2020. Since the Group does not use derivative instruments based on interest rates, the change does not have influence on its financial statements.

Standards and interpretations effective in the version published by the IASB but not approved by the European Union are listed below in the section on standards and interpretations that have not come into force.

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

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

Amendments effective for annual periods beginning on or after 1 January 2021

By the date of preparation of these consolidated financial statements, new or revised standards and interpretations have been published, which are applicable to the annual periods after 2020. The list also includes changes, standards and interpretations published but not yet approved by the European Union.

- New IFRS 17 "Insurance Contracts"

  The new standard regulates the recognition, measurement, presentation and disclosure of insurance and reinsurance contracts. The standard replaces the IFRS 4 applied previously. The Group estimates that the new standard will not affect its financial statements because it does not conduct insurance activity. The standard is effective for annual periods beginning on or after 1 January 2023.

- Amendment to IAS 1 "Presentation of Financial Statements"

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

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

The amendments are effective for annual periods beginning on or after 1 January 2023. The Group is analyzing the impact of the amendments on its financial statements.

- Amendments to IFRS 1, IFRS 9, examples for IFRS 16, IAS 41 as part of Annual Improvements 2018 – 2020:
    - IFRS 1: additional exemption pertaining to the determination of cumulative exchange rate differences from consolidation;
    - IFRS 9: (1) when performing the "10 per cent" test to assess whether modification should result in derecognition of liability, only the fees that are exchanged between the debtor and the creditor should be included; (2) it was clarified that the fees incurred in the event of liability removal are recognized in the result, and if the liability is not removed, it should be referred to the value of the liability;
    - IFRS 16: the issue of an incentive from the lessor in the form of coverage of fit-out costs incurred by the lessee, which raised interpretation doubts, was removed from example 13;
    - IAS 41: the prohibition of recognizing tax flows in the valuation of biological assets was removed.

  The changes are effective for annual periods beginning on or after 1 January 2022. The Group has not completed the analysis of their impact on the financial statements.

- Amendment to IAS 16 "Property, Plant and Equipment"

  It was clarified that the production carried out as part of fixed asset testing prior to its usage should be recognized as (1) inventory in accordance with IAS 2 and (2) revenue when it is sold. The Group estimates that the change will not affect its financial statements. The change is effective for annual periods beginning on or after 1 January 2022.

- Amendment to IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"

  It was clarified that the costs of fulfilling onerous contracts include incremental costs (e.g. labor costs) and the allocated part of other costs directly related to the fulfillment cost, e.g. depreciation. The group is still evaluating the effect of the amendment on its financial statements.

  The change is effective for annual periods beginning on or after 1 January 2022.

- Amendment to IFRS 3 "Business Combinations"

  References to the definition of liabilities included in the conceptual framework and the definition of contingent liabilities from IAS 37 have been specified. The group estimates that the amendment will not have an impact on its financial statements. The change is effective for annual periods beginning on or after 1 January 2022.

- Amendment to IFRS 16 "Leases"

  In connection with the COVID-19 pandemic, the IAS Board introduced a simplification that allows not to assess whether the changed future flows resulting from concessions received from lessors that meet the conditions set out in the standard are a "lease change" under IFRS 16. In connection with the COVID-19 pandemic, Silvair, Inc. Group received a reduction in rent payments, as described in Note 3.7 Right-of-use asset. The change is effective for annual periods beginning on 1 June 2020 (with earlier application possible).

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16

  In connection with the planned reform of benchmark interest rates (WIBOR, LIBOR, etc.), the IAS Board introduced further changes to the accounting principles for financial instruments:

  - in the case of measurement at amortized cost, changes in estimated cash flows resulting directly from the IBOR reform will be treated the same way as a change in a floating interest rate, i.e. without recognizing the result,
  - it will not be necessary to terminate the hedging relationship if the only change relates to the effects of the IBOR reform and the other criteria for applying hedge accounting are met; the amendment regulates how an alternative rate should be included in a hedging relationship,
  - the Group will be required to disclose information about the risks arising from the reform and about how it manages the transition to alternative benchmark rates.

The Group has not finished estimating the impact of the change on its financial statements yet. The change is effective for annual periods beginning on or after 1 January 2021.

The Group intends to implement the above regulations within timeframes provided for by standards or interpretations.

Description of adopted accounting policies

These annual consolidated financial statements have been prepared on the historical cost basis, except for equity instruments to be measured at fair value through other comprehensive income, which are carried at fair value.

Translation of items in foreign currencies

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

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

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

	31 December 2020	31 December 2019
PLN/USD	0.2661	0.2633

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

	01.01.2020 - 31.12.2020	**01.01.2019 - 31.12.2019**
PLN/USD	0.2561	0.2601

Segments

The Group focuses its activities on the following three market segments:

Lighting Control

In the lighting control segment, the supply chain begins with manufacturers of lighting components such as drivers, controllers, sensors, etc. These entities supply their products directly to luminaire manufacturers, although distribution channels may also include wholesale networks and energy service companies (ESCOs). Luminaire manufacturers specialize in producing structural components of luminaires in which lighting components from other suppliers are then placed and connected. Providers of lighting control solutions and complete lighting control systems are the next link in the supply chain. They acquire components or complete luminaires directly from the above-mentioned suppliers, and then integrate individual components with each other, while also implementing lighting control logic. Ready-to-use solutions and systems are usually distributed through a network of own vendors who cooperate closely with enterprises responsible for design specification. The buyers of lighting control systems primarily include property owners and property managers. They usually do not choose specific lighting solutions for their buildings, relying in this regard on the knowledge and experience of companies specializing in providing complete lighting control solutions. It should be noted that the activities of many entities go beyond the framework defined above, which often results in a significant shortening of the above-mention supply chain. For example, some companies can produce both luminaires and components for these luminaires. It also happens that suppliers of complete lighting control systems independently produce components and/or luminaires used in the solutions offered by them.

In the **Lighting Control** segment, Silvair Group delivers essentially two products to the market:

- **Silvair Ligting Firmware** is firmware based on the global Bluetooth Mesh standard. After integration with a lighting component, it enables wireless communication with other devices using the Bluetooth Mesh technology. This, in turn, opens up multiple new possibilities with regard to lighting control, monitoring of the lighting infrastructure operation, and the use of data generated by lighting infrastructure. A component with installed firmware allows e.g. autonomous control of light intensity and color temperature, as well as the implementation of advanced scenarios for smart lighting control, such as:
    - Automatic occupancy-based control (*Occupancy Sensing*) – it is a scenario that uses data from a network of motion sensors to automatically adjust the operation of luminaires to the presence of people in a given space. In practice, this means automatic switching off / dimming of the light when motion sensors do not detect occupancy in a given room. LBNL estimates that this scenario generates average energy savings of 24%.
    - Automatic control based on natural light availability (*Daylight Harvesting*) – it is a scenario that uses data from a network of light sensors to automatically adjust the light intensity depending on the

availability of natural light in a given space. In practice, this means automatic switching off / dimming of the light when the natural light coming in through the windows fully or partially covers the lighting needs in a given room. LBNL estimates that this scenario generates average energy savings of 28%.

- Automatic control based on a defined schedule – it is a scenario that involves defining a time schedule for the operation of a lighting installation. Such a schedule can be defined based on a 24-hour clock (e.g. turning the lights on at 7 a.m. and turning them off at 6 p.m. on every weekday) or based on the astronomical clock (e.g. turning the lights on at sunset and turning them off at sunrise). LBNL estimates that this scenario generates average energy savings of 24%.

The above scenarios can be combined with each other to maximize energy efficiencies. In the case of smart lighting networks, these and other advanced lighting control strategies can be freely configured and optimized using intuitive software - e.g. an application installed on a mobile phone or tablet. The software provided by Silvair is designed in such a way that its operation does not require lighting control expertise, as is the case with traditional cable systems.

Silvair Lighting Firmware is offered to lighting component manufacturers in a one-time payment model for each activated firmware license (one activated license means one smart component sold by the Company's partner).

- **A set of digital tools (Silvair Commissioning)** for commissioning, configuration and management of smart lighting networks based on the Bluetooth Mesh standard. It includes a web application that allows designing a lighting control system and defining the desired lighting control scenarios before visiting the building where the project is to be implemented. The configuration process is finalized on-site using a mobile application. This division simplifies the work of an installer while minimizing the costs of commissioning. The tools are designed in such a way as to simplify and accelerate the commissioning as much as possible, since thus far it has been considered an arduous and expensive process that can be carried out only by a highly qualified specialist. Full automation of processes related to the establishment of a smart network and a ready-to-use library of lighting scenarios allow easy implementation of advanced, energy-efficient lighting control strategies while also enabling flexible adjustment of the system operation to users' needs. Also in this case, a one-time payment model is used - for each smart component commissioned and configured using the tools provided by Silvair.

Smart lighting services (Connected Lighting)

This relatively young market segment has appeared as a result of the emergence of wireless lighting control technologies. The providers of innovative smart lighting services are companies that offer software solutions allowing utilization of the potential of wireless control systems with regard to the use of data generated by smart components. Appropriate aggregation and analysis of this data allows the provision of services that significantly increase the reliability of lighting installations, while enabling more flexible control over their operation. The customers of these companies are usually suppliers of complete control systems who increasingly often decide to provide additional services that go beyond the traditionally understood definition of lighting control. This allows them to increase the value of offered solutions and, as a consequence, improve their competitive advantage. End users are property owners and managers who can use the innovative services to e.g. optimize the costs of electricity and increase the satisfaction of building occupants.

In the **Connected Lighting** segment, the Group plans to provide services related to the provision of digital tools for, among others, the following applications:

- **Lighting infrastructure diagnostics -** unlike traditional lighting products, smart luminaires enable bidirectional exchange of information. This means they not only receive instructions sent by switches, dimmers or occupancy sensors, but are also able to transmit a wide range of data regarding the operation of the installation. This information can be transmitted in real time, providing a very precise insight into the current state of the entire lighting infrastructure. When the appropriate software is used, this data allows – for example – generation of automatic alerts in the event of any irregularities. This in turn allows immediate reaction, e.g. replacement of a faulty luminaire. This functionality eliminates the need for carrying out a visual inspection of the system in order to identify defective luminaires. In the case of extensive lighting networks installed e.g. in hotels, this increases the reliability of the installation, significantly improves the effectiveness of maintenance works, substantially reduces costs, and increases customer satisfaction. It is also possible to develop more advanced software that analyzes data packets on an ongoing basis to identify even minor anomalies, e.g. fluctuations in device operating temperature or fluctuations in the level of generated light. This provides the foundation for implementing the so-called predictive maintenance practices which allow predicting failures of lighting components in advance. This, in turn, further increases the reliability of the entire installation, while eliminating the undesirable consequences of device failures. In addition, data generated by smart luminaires can be used by customers to exercise their warranty rights. Having precise information on the total lifetime operating hours of the device, the customer can easily verify the manufacturer's warranty regarding its lifetime, and exercise the customer's rights in the event of a warranty breach. On the other hand, a device manufacturer can obtain a wide range of data regarding the ways its component is used by the customers in order to be able to design solutions that better meet the needs of consumers.
- **Emergency lighting system test automation**. Emergency lighting systems are not used on a daily basis, but it is necessary to ensure their reliability in emergency situations, including situations that threaten human life, e.g. in the event of a fire. For this reason, fire regulations oblige property managers to regularly inspect such installations. These inspections must be carried out by specialists with appropriate qualifications who verify the reliability of the installation on-site. Unlike traditional cable installations, a smart lighting system can autonomously verify the operation of individual system components, and automatically diagnose potential problems. It is possible to generate periodic reports that include all data required by fire regulations, which significantly reduces the expenses associated with carrying out mandatory periodic maintenance inspections.
- **Energy consumption monitoring.** Using appropriate software, a building administrator can keep track of the amount of electricity consumed by the lighting installation - from individual luminaires, through individual rooms and floors, to the entire building. This allows optimizing the lighting system operation and implementing other advanced lighting control scenarios. Energy monitoring is also important from the point of view of entities applying for energy rebates, as it allows easy documentation of e.g. the fact that a system meets specific energy efficiency requirements, or that specific energy savings have been achieved through a lighting control system modernization.
- **Remote control and configuration of the lighting installation**. Smart lighting systems provide the ability to remotely control the operation of a lighting installation in real time, and to remotely configure lighting settings (e.g. relating to the implemented advanced control scenarios). As a result, it is possible to adjust the system operation to current needs and circumstances without the need for physical presence of the

system administrator in the building. This functionality enables more flexible management of the lighting infrastructure while reducing the costs associated with a specialist visit.

Silvair Connected Lighting solutions will be offered primarily to the suppliers of complete lighting control systems, as well as to energy service companies (ESCOs). By improving the efficiency and reliability of lighting installations, these services constitute an attractive addition to the offer of such entities, increasing their competitiveness and creating new revenue opportunities. The Group plans to offer the abovementioned services in a subscription model.

Smart building management (Building Intelligence)

The smart building management segment includes entities providing infrastructure and / or software solutions that allow property owners and managers to make more efficient use of commercial spaces, and to streamline processes occurring inside and outside buildings. For a long time, the provision of such services required implementing a dedicated infrastructure, e.g. a network of cameras or monitoring sensors. However, the technological progress that has taken place over recent years in the area of wireless communication enables many of these services to be provided today via smart lighting network infrastructure.

Silvair Building Intelligence is a set of smart building management services that can be provided using digital tools developed by the Company. Based on the analysis of data generated by occupancy sensors, which are an integral part of responsive and energy-efficient lighting control systems, these tools allow obtaining detailed information on processes occurring within the building. The provided services are not directly related to the functioning of the lighting network, however, they allow owners and managers of commercial buildings to use space more efficiently while increasing the productivity of their occupants. The Group plans to develop a wide range of tools enabling the provision of innovative services such as:

- **Occupancy Monitoring.** Motion and occupancy sensors not only help increase the comfort of people in a given space by adjusting lighting, air conditioning and heating to their needs at a given moment, which actively supports energy saving efforts, but are also able to collect and transfer space occupancy data which can later be used for:
    - Optimizing space utilization and optimizing space maintenance costs, as well as increasing employee productivity e.g. through more efficient organization of the office space, increase in the efficiency of cleaning services (deploying them only in the spaces that have been used), and increase in the efficiency of building processes such as heating or air conditioning.
    - Improving sales by recognizing and understanding customers' shopping habits and improving the efficiency of the sales space,
    - Increasing the safety of the building as well as people and assets inside the building by improving the operation of alarm / security systems or providing integration with such systems.
- **Indoor navigation.** GPS navigation works great outdoors, but performs poorly indoors due to interference and significant weakening of the radio signal. Implementing the Bluetooth Mesh technology in the lighting infrastructure enables sending radio signals to mobile devices which – after the mapping process is carried out – allow determining the location inside a building. Due to the fact that the locating process is based on information received by a mobile phone, this functionality can be used without users losing their privacy, which is the case with video recording

- **Asset tracking**. Employees are often involved in the search for equipment, which generates significant time and financial losses in some organizations. Asset tracking eliminates the need for employees to find items manually. It also provides accurate insight into how efficiently spaces are used in a given organization, office or warehouse, while enabling identification of relationships with regard to how resources are used. This in turn allows streamlining of business operations. Collecting data on where the equipment is and how it is used allows understanding what actions should be taken to keep the equipment in operation for as long as possible, e.g. by anticipating necessary repairs before they become urgent.
- **Monitoring of environmental conditions.** Once the lighting infrastructure is equipped with appropriate sensor technology, it is possible to collect and analyze data relating to environmental quality assessment. Monitoring of relevant indicators contributes to the safety of processes, resources and humans. Examples include:
    - Protecting inventory and maintaining specific conditions for products stored in warehouses or used in production processes,
    - Preventing equipment failures and downtimes,
    - Increasing productivity by maintaining comfortable and safe environmental conditions for building occupants.

  Optimal environmental conditions can be ensured by remote monitoring of, among others, ambient temperature, humidity, lighting, pollution, air pressure, or sound volume.

Silvair Building Intelligence solutions will be offered primarily to the owners and managers of commercial buildings. The software developed by the Company will enable monitoring and optimization of processes taking place inside buildings in order to increase employee productivity and improve the efficiency of available resources utilization. The Group plans to offer the above-mentioned services in a subscription model. The Board believes that the modified presentation of the segments better reflects the Group's product offer while taking into account the strategic directions of the Group's development.

Property, plant and equipment and right-of-use assets

The Group 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 Group's operations, they constitute in aggregate a significant asset.

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

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

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

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

As at the balance sheet date, the Group also reviews property, plant and equipment for impairment indications and assesses the need to recognize impairment losses on this account. The need to recognize impairment losses occurs when the Group – 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 Group is sufficiently certain that the reason for the impairment loss recognized on an asset ceases to exist, it reverses the previously recognized impairment loss in whole or in part by crediting revenues.

An item of property, plant and equipment may be derecognized if disposed of or if the Group does not expect to realize any future economic benefits from its further use. Any gains or losses resulting from the sale, liquidation or cessation of use of fixed assets are defined as the difference between the sales revenues and the net value of these fixed assets. These gains and losses are recognized in the result as other operating income or costs at the moment when the buyer obtains control of the property, plant and equipment component to be disposed of in accordance with the requirements of IFRS 15. The amount of consideration for the disposal of an item of property, plant and equipment is determined in accordance with the requirements of IFRS 15 on determining the transaction price.

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

Costs of development work

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

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

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

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

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

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

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

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

As at the balance sheet date, the Group reviews the progress status of each project and verifies intangible assets for indications of impairment. If it is identified that any events or circumstances may point to difficulties with recovery of the carrying amount of the given asset, an impairment test is carried out. An annual impairment test is carried out for costs of development works which have not yet been accepted for use.

Due to the unique nature of the activities, comprising comprehensive development and implementation of an innovative technology, the impairment tests for intangible assets are carried out for the set of assets which jointly generate cash flows, independently of other assets or asset groups (referred to as cash generating units). Assets that generate cash flows independently are tested separately.

If the carrying amount exceeds the estimated recoverable amount of the assets or the cash generating units to which the assets belong, then the carrying amount is reduced to the level of the recoverable amount. The recoverable amount corresponds to the higher of: fair value minus selling and distribution expenses, or value in use. In determining the value in use, the estimate future cash flows are discounted to the present value, using a discount rate reflecting up-to-date market assessments of time value of money and the risk associated with the given asset.

Impairment is charged to other expenses corresponding to the function of the intangible assets in the period when the impairment was found, no later than as at the end of the financial year. If, for an asset subject to a write-down, there is a change in the estimated values used to determine the recoverable amount of the asset and the re-test based on them shows an increase in the recoverable amount of the write-down component, the asset's carrying amount is increased by reversing the previously made impairment loss in part or in full. The reversal of the impairment loss is recognized as income.

Other 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 Group 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 Group 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 Group, 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 Group 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 Group'a 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 cliassified 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 Group 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.

Leases

For each concluded contract, the Group decides whether the contract is or includes a lease. A lease is defined as a contract or part of a contract that conveys the right to control the use of an identified asset (the underlying asset) for a period of time in return for consideration. To this end, three main aspects are analyzed:

- whether the contract relates to an identified asset that is either expressly stated in the contract or implicitly when the asset is made available to the Group,
- whether the Group has the right to obtain substantially all of the economic benefits from using the asset throughout its useful life to the extent specified in the contract,
- whether the Group has the right to direct the use of the identified asset throughout its useful life.

On the commencement date, the Group recognizes the right-of-use asset and the lease liability. The right-of-use is initially measured at the purchase price consisting of the initial value of the lease liability, the initial direct costs, the estimate of the expected costs of dismantling the underlying asset and the lease payments paid on or before the commencement date, less any lease incentives

The Group amortizes the right of use using the straight-line method from the commencement date to the end of the useful life of the right of use or to the end of the lease term, whichever is earlier. If there are indications for this, the rights of use are tested for impairment in accordance with IAS 36.

As at the commencement date, the Group measures the lease liability at the present value of the outstanding lease payments using the lease interest rate if it can be easily determined. Otherwise, the lessee's marginal interest rate is used.

The lease payments included in the lease liability consist of fixed lease payments, variable lease payments dependent on index or rate, amounts expected to be paid as a guaranteed residual value, and exercise purchase option payments if they are reasonably certain to be exercised.

In subsequent periods, the lease liability is reduced by repayments made and increased by accrued interest. The valuation of the lease liability is updated to reflect contract changes and to reassess the lease term, exercise of call option, guaranteed residual value or lease payments based on an index or rate. As a rule, the revaluation of the liability is recognized as an adjustment to the right-of-use asset.

The Group applies the practical solutions permitted by the standard regarding short-term leases and leases in which the underlying asset is of low value. For such contracts, instead of recognizing right-of-use assets and lease liabilities, lease payments are recognized in profit or loss on a straight-line basis over the lease term.

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

Inventory

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

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

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

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

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

In the case of trade receivables, the Group applies a simplified approach assuming calculation of write-offs for expected credit losses for the entire lifetime of the instrument. Write-offs are estimated on a collective basis and receivables are grouped according to their past due period. The write-off estimate is based on the historical past due dates and the connection of the arrears with the actual repayment rate from the last 2 years, taking into account the available information regarding the future.

In 2020, the Group developed a model in which verification covers the percentage of receivables in the intervals of overdue periods as at the last day of the year preceding the balance sheet date, which remained outstanding as at the balance sheet date. The verification showed that all receivables, which as at 31 December 2019 were in the overdue group, were paid within the required period. Out of the overdue receivables, the percentage of unpaid receivables was as follows:

Overdue:	up to 30 days	unpaid	9.15%
	from 31 to 90 days	unpaid	16.32%
	from 91 to 180 days	unpaid	0.00%
	from 181 to 360 days	unpaid	85.86%
	over 360 days	unpaid	0.00%

For each aging group of receivables as at 31 December 2020, the above % ratios were used to calculate the expected credit losses.

Since the Group's significant sales revenues appeared in 2019, the adopted method of estimating write-offs will be verified by the Group on the basis of data available in the coming years.

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

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

Assets from contracts with customers

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

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

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

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

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

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

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

Prepayments and accruals

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

The Group recognizes deferred income for the purpose of treating this income as income in future reporting periods when they are realized. 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 Group keeps records of prepayments and accruals for the short and long term.

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

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

If the subsidy relates to a particular cost item, it is recognized as revenue in proportion to the costs which the subsidy is supposed to compensate for. If the subsidy is related to an asset, its fair value is recognized on the "revenue from future periods" account and then gradually entered on the profit and loss account by means of equal annual write-offs for the estimated utilization period for the related asset. For the needs of presentation in the consolidated statement of financial position, the Group does not deduct subsidies from the carrying amount of assets but recognizes subsidies as revenue from future periods in the "Prepayments and accruals" line item.

Cash and cash equivalents

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

Cash is measured at amortized cost.

Non-current assets classified as held for sale

Non-current assets (non-current asset groups) are classified by the Group as held for sale if their carrying amount is recovered primarily as a result of sales transactions rather than through further use. This condition is deemed satisfied only when the asset (asset group) is available in its current condition for immediate sale, in keeping with normal and customary sales terms, and the conclusion of a sales transaction is highly probable during one year from the change of the classification.

Non-current assets classified as held for sale are carried at the lower of: carrying amount or fair value minus cost of sale. Some non-current assets classified as held for sale, such as financial assets and deferred tax assets are measured according to the same accounting principles as were applied by the Group before their classification as non-current assets held for sale. Non-current assets classified as held for sale are not subject to depreciation.

Equity

The Group's equity is comprised of:

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

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

Capital from revaluation of options (share-based payment)

The cost of share-based payment transactions is measured by reference to the fair value 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 Parent Company's shares is estimated by an independent expert using modern financial engineering methods and numerical methods. The measurement includes: input price for the model, strike price of the instrument, expected volatility of the instrument, risk-free interest rate and expected dividend.

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

The minority interest transactions line item presents transactions with non-controlling entities which do not result in loss of control by the Parent Company:

- purchase of interests from non-controlling entities – the difference between the purchase price and the carrying amount of net assets acquired from non-controlling entities
- partial sale of interests to non-controlling entities – the difference between the sales price and the carrying amount of net assets of the subsidiary attributable to the interests sold to non-controlling entities.

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

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

Provisions for liabilities

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

The Group creates a provision for the costs of accumulated payable absences which it will have to disburse to cover the unexercised right of employees in the amount accrued as at the balance sheet date. The provision for unused vacation time is a short-term provision and is not subject to discounting.

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

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

Trade liabilities and other non-financial liabilities

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

Current trade liabilities are recognized in the amount payable due to insignificant discount effects. Interest, if any, is recognized when the suppliers' notes are received. Non-current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is longer than 12 months. Current liabilities are the liabilities whose maturity, counting from the end of the reporting period, is shorter than 12 months. Other non-financial liabilities include in particular liabilities to the tax office on account of value added tax and other public institutional debt, liabilities on account of received advance payments to be settled by deliveries of goods, services or non-current assets. Other non-financial liabilities are recognized at the amount of the required payment.

Liabilities from contracts with customers

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

Financial liabilities

A financial liability is any liability that is:

- a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under potentially unfavorable conditions
- a contract that will or may be settled in the entity's own equity instruments and is a non-derivative instrument for which the group 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 group's own equity instruments. For this purpose, rights, options or warrants to acquire a fixed number of the group'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 Group classifies each financial liability as:

- financial liabilities measured at amortized cost,

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

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

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

Income tax

Income tax includes: current tax to be paid 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.

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

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

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

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

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

Operating revenues and expenses

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

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

- 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 a performance obligation is satisfied.

Identification of the contract with the customer

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

- the contracting parties have entered into a contract (in writing, orally, or in line with other usual commercial practices) and are required to perform their obligations,
- the Group is able to identify the rights of each party pertaining to the goods or services to be delivered,
- the Group is able to identify the payment terms for the goods or services to be delivered

- the contract has economic content (meaning that it may be expected that the contract will result in changing the risk, timing or amount of future cash flows),
- it is likely that the Group will receive consideration which it will be entitled to in exchange for the goods or services to be delivered to the customer.

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

Identification of the performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either: a good or service (or 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 Group will consider the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties. The consideration promised in a contract with a customer may include fixed amounts, variable amounts, or both.

Allocation of the transaction price to performance obligations

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

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

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

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

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

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

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

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

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

The contracts have a written form and include:

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

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

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

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

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

Revenues under CSA agreements are included in the **Lighting Control** segment.

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

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

Revenues under SLS contracts are included in the **Lighting Control** segment.

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

The Group does not appear in agreements in the capacity of an agent, intermediary or principal.

With regard to its customers, the Group applies payment terms in the range 14-60 days and classifies them as current receivables

Financial activity revenues and expenses

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

Uncertainty of estimates

In preparation of the consolidated financial statements, the Parent 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 Parent Company's management on current actions and events, the actual results may differ from the expectations.

As regards the development works conducted by the Issuer, two key assumptions have been identified for which there is a significant risk of material adjustments of the carrying amounts of the Group's assets:

- Commercial success of the products and services depends on the pace and scale of dissemination and commercial implementation of the Bluetooth Mesh standard. It cannot be ruled out that Bluetooth Mesh will not bring the expected market success
- The pursuit of the Group's strategy depends on the success of its research work and effective commercialization of the developed products. Although the first products have already been launched in the market, the Issuer cannot rule out that the current form of our products will not satisfy customer requirements and will require additional, unpredicted modifications.

Since the above assumptions pertain to a longer time horizon, in the Issuer's assessment, they do not have any significant impact on the risk of major adjustments of the carrying amount of the Group's assets during the next financial year.

The uncertainty of estimates is also burdened with the risk of not fully known consequences of the situation caused by COVID-19. In the opinion of the Board, at the moment this does not necessitate the adjustment of the carrying amounts of the Group's assets.

Subjective assessments and judgments

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

- impairment of expenditures for development work (see Note 1.1 and 1.3)
- impairment of other intangible assets (see Note 2.1)
- impairment of property, plant and equipment (see Note 3.1)
- impairment losses (see Note 1.1, 5, 6 and 7)
- revenues from contracts with customers (see Note 22.1)
- provisions (see Note 20.3)
- term of lease contracts (see Note 18.1)
- share-based payment agreements (see Note 30)

In the reporting period, no changes were made in the methods used to make estimations, compared to 2019.

Seasonality of business

The Group's business is not seasonal.

Business combinations and loss of control

During the period of 12 months of 2020, there were no business combinations or loss of control in the Group. There were no such events in 2019 either.

Additional notes and explanations to the annual consolidated financial statements

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

Note 1.1 Costs of development work

Costs of development work	31.12.2020	31.12.2019
Completed development work	10 015	8 425
Development work not yet completed	757	1 471
Total	**10 772**	**9 896**

In the period from 1 January to 31 December 2020, the Group's capitalized costs of development work amounted to USD 1.75 million, of which: USD 780 thousand – Silvair Platform, USD 742 thousand - Silvair Mesh Stack, USD 230 thousand - Bluetooth Mesh Protocol. The work under the ALS project is financed from the NCBiR grant described in Note 40.

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

Bluetooth Mesh protocol:

The aim of the project is to prepare and develop a wireless communication protocol in the mesh topology based on the Bluetooth technology. The project is executed in cooperation with other partners in the task force appointed by the Bluetooth Special Interest Group, aiming to prepare the specification and develop the Bluetooth Mesh standard. The project has been being developed since 2014 and is of open nature, i.e. individual protocol development work stages are closed (i.e. accepted for use) together with publication of subsequent versions of the Bluetooth Mesh standard. The first stage of the development work under the project was closed in 2017 with the publication of the new standard. Further stages of work are completed with the publication of subsequent versions of the Bluetooth Mesh protocol specification. In the reporting period from 1 January to 31 December 2020, the expenditures incurred for development of the next project stage increased the value of development work not yet completed.

Silvair Mesh Stack:

The aim of the project is to develop a firmware stack for electronic devices (in particular for electronic lighting components) on the basis of a standardized communication protocol Bluetooth Mesh. The project has been being developed since 2015, in parallel with the work on the Bluetooth Mesh protocol, and is of open nature, i.e. individual development work stages are closed (i.e. accepted for use) together with publication of subsequent commercial versions of the software. The first stage of development work was completed in 2017, one day after the publication of the standard, together with the qualification, by the Bluetooth SIG, of implementation of the software released by the Issuer, i.e. the software stack (the so-called Mesh Core) and the application layer (the so-called Model Mesh Core). Further stages of work are completed with the Issuer's release of further commercial versions of the software (Silvair Lighting Firmware). In the reporting period and in the previous year, the expenditures incurred for development of the next project stage increased the value of completed development work.

Silvair Platform:

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

The development work completed during the reporting period corresponds to the intangible assets which were completed and the Issuer has made a decision to accept them for use.

In the reporting period, the Issuer did not incur any research expenditure.

Amortization of costs of development work	**31.12.2020**	**31.12.2019**
Completed development work	1 113	974
Development work not yet completed	-	-
Total	**1 113**	**974**

Amortization of completed development works is charged to the cost of sales.

Estimates:

As at each balance sheet date, the Group analyzes whether or not objective grounds exist that might imply an impairment of expenditures on development work.

Due to the unique nature of the activities, comprising comprehensive development and implementation of an innovative technology, the Issuer carries out impairment tests for the set of assets which are jointly referred to as cash generating units. In carrying out impairment tests for completed and not yet completed development works, the Issuer follows two key factors:

- The pace of adoption and scale of dissemination and commercial implementation of the Bluetooth Mesh standard. The Issuer conducts, among others, observations and assesses the current behavior of market participants, analyzes market trends, participates in industry events and keeps track of market activity regarding implementations of the technology based on the Bluetooth Mesh standard, keeps track of the involvement of new entities in the work of the Bluetooth SIG working group and observes the behavior of the competitors.

- The scale of market interest in the products and services offered by the Group. In this regard the Issuer assesses the dynamics of the process of acquisition and contracting of partners and customers, and the dynamics and scale of the sale of the Group's products subject to such contracts.

The Issuer has also assessed the following:

- the technical feasibility of completion of the intangible asset,
- the intention to complete, use or sell the asset,
- the ability to use or sell the asset,
- how the given asset will generate future economic benefits,
- availability of sufficient resources to complete the development work or sell the asset,
- the ability to reliably measure the expenditures incurred on the asset during its development.

Amortization is recognized, as a rule, using the straight-line method for the estimated useful life of the given asset.

The adopted 10-year amortization period is justified by the innovative nature of the developed technology and its market potential, backed up by the global Bluetooth Mesh standard. The amortization period has been estimated taking into account the useful life of the technology and the possibility of deriving benefits from individual development works. Information on the performed tests and their results are included in Note 1.3 - Results of impairment tests of the costs of development work.

At least once a year, the Group revises the assumed periods of useful life, based on its current estimates. The verification did not reveal the necessity to change the adopted periods.

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

Note 1.2 Changes in costs of development work

Costs of development work*	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Gross value at the beginning of the period	**12 912**	**10 186**
Additions, including:	1 888	2 792
Expenditures incurred	1 752	2 792
Foreign exchange differences from measurement in presentation currency	136	-
Reductions, including:	-	66
Liquidation and sale	-	-
Foreign exchange differences from measurement in presentation currency	-	66
Gross value at the end of the period	**14 800**	**12 912**
Accumulated depreciation at the beginning of the period	**2 323**	**1 349**
Additions	1 113	974
Reductions	-	-
Accumulated depreciation at the end of the period	**3 436**	**2 323**
Impairment losses at the beginning of the period	**693**	**-**
Additions	-	693
Reductions	101	-
Impairment losses at the end of the period	**592**	**693**
Net value at the beginning of the period	**9 896**	**8 837**
Net value at the end of the period	**10 772**	**9 896**

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

Note 1.3 Results of impairment tests of the costs of development work

The Group has reviewed the development work from the perspective of the possibility of generating expected economic benefits in the future. In 2019, as a result of the review, the Group identified intangible assets worth USD 693 thousand, which lost their value as a result of the market's lack of interest in the products that had been developed based on these assets, and discontinuation of the development of the technology implemented in them. These assets have been covered by an impairment loss in the full amount. As at 31 December 2020, as a result of the review, no new items of this group of assets were identified that would require additional impairment losses.

For the remaining development works with significant value, both under way and completed, impairment tests have been carried out. In order to assess the recoverable amount, individual development works have been grouped into cash generating units.

The impairment tests have been carried out for the following cash generating units:

- Bluetooth Mesh Protocol and Silvair Mesh Stack,
- Silvair Platform and Multi ALS,
- Wi-Home.

The recoverable amount has been determined on the basis of the value in use of the assets, understood as the present estimated value of future cash flows which are expected to be achieved due to further use of the cash generating unit.

Assumptions adopted for the needs of impairment tests:

- The test is prepared on the basis of an internal financial forecast of the Silvair Group for 2021-2030 (Forecast) based on the discounted cash flow method.
- Due to the innovative nature of the commercialized technology, a 10-year projection period has been adopted.
- The execution of development work has multiple stages, i.e. individual development work stages are closed upon release of the next software versions and/or launch of the next service or package of digital services.
- The development work volume in individual projection years comprises: initial carrying amount, direct expenditures (personnel and non-personnel) on continuation of individual work stages, direct expenditures on and other expenditures of the Group which are aimed to contribute to earning revenues from the tested assets.
- The initial carrying amount comprises all expenditures incurred both for development works completed and not yet completed included in the cash generating unit.
- To determine the discount rate, the weighted average cost of capital was used. The WACC value calculated for the needs of the Test was 10.54 %.

The financial forecast has been prepared on the basis of the following assumptions:

- The market size and potential have been estimated on the basis of market reports, including, among others: "Intelligent Lighting Controls" prepared by Navigant Research and "Smart Lighting Market" prepared by Markets&Markets.
- The business model has been verified with the partners and confirmed by already concluded contracts.

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

- The revenue increase rate in the years to come has been based on the so-called S-Curve – characterizing the implementation of new technologies.
- A 10-year projection period has been adopted.
- It has been assumed that the in the projection period the Group will reach the stage of business maturity.
- The pace and scale of acquisition of new customers have been based on historical data on the contracted clients and the scaling of the sales team, taking into account an appropriate cost relation.

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

Cash generating unit	Value of development work as at 31.12.2020	Recoverable amount
Bluetooth Mesh Protocol and Silvair Mesh Stack	5 106	28 344
Silvair Platform and Multi ALS	4 704	150 827
Wi-Home	962	4 950
Total	**10 772**	**184 121**

The tests carried out did not identify the need to recognize additional impairment losses for the costs of development work.

Note 2.1 Intangible assets

Other intangible assets	31.12.2020	31.12.2019
Other intangible assets (computer software)	70	17
Total	**70**	**17**

Estimates:

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

Amortization is recognized, in principle, using the straight-line method for the estimate useful life of the given asset. The amortization rates are determined on the basis of the anticipated useful life of other intangible assets.

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

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

Note 2.2 Changes in intangible assets, by type

Other intangible assets	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Gross value at the beginning of the period	**581**	**578**
Additions	60	4
Reductions	-	1
Gross value at the end of the period	**641**	**581**
Accumulated depreciation at the beginning of the period	**564**	**560**
Additions	7	4
Reductions	-	-
Accumulated depreciation at the end of the period	**571**	**564**
Net value at the beginning of the period	**17**	**18**
Net value at the end of the period	**70**	**17**

The Group has no intangible assets used under lease agreements.
The Group has no intangible assets with restricted use rights.
The Group has no bank loans that would be secured with intangible assets.
As at 31 December 2020 and 31 December 2019, there were no contractual obligations related to the purchase of intangible assets.

Note 2.3 Ownership structure of intangible assets

Intangible assets	31.12.2020	31.12.2019
Owned	70	17
Third party	-	-
Total	**70**	**17**

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

Note 3.1 Property, plant and equipment

Property, plant and equipment	31.12.2020	31.12.2019
Fixed assets, including:	16	34
Land	-	-
Buildings and structures	6	8
Plant and machinery	10	26
Means of transport	-	-
Other fixed assets	-	-
Fixed assets under construction	-	-
Total	**16**	**34**

Information about fixed assets used on the basis of lease agreements is presented in Note 3.7.

The Group has no land in perpetual usufruct.

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

The depreciation expenses for non-current assets are charged to general and administrative expenses.

As at 31 December 2020 and 31 December 2019, there were no contractual obligations related to the purchase of property, plant and equipment.

As at 31 December 2020 and 31 December 2019, there were no liabilities to the state budget or local government units related to the acquisition of ownership titles to buildings and structures.

Estimates:

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

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

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

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

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

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

Item	Own land	Buildings and structure	Plant and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value as at 01.01.2020	**-**	**24**	**252**	**-**	**32**	**-**	**308**
Additions, including:	-	-	2	-	2	-	4
Acquisition	-	-	2	-	-	-	2
Foreign exchange differences from measurement in presentation currency	-	-	-	-	2	-	2
Reductions, including:	-	1	16	-	1	-	18
Liquidation and sale	-	-	16	-	-	-	16
Foreign exchange differences from measurement in presentation currency	-	1	-	-	1	-	2
Gross value as at 31.12.2020	**-**	**23**	**238**	**-**	**33**	**-**	**294**
Accumulated depreciation as at 01.01.2020	**-**	**16**	**226**	**-**	**32**	**-**	**274**
Additions	-	1	19	-	1	-	21
Reductions	-	-	17	-	-	-	17
Accumulated depreciation as at 31.12.2020	**-**	**17**	**228**	**-**	**33**	**-**	**278**
Net value as at 01.01.2020	**-**	**8**	**26**	**-**	**-**	**-**	**34**
Net value as at 31.12.2020	**-**	**6**	**10**	**-**	**-**	**-**	**16**

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

Item	Own land	Buildings and structure	Plant and machinery	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value as at 01.01.2019	**-**	**22**	**230**	**-**	**38**	**-**	**290**
Additions, including:	-	2	27	-	-	-	29
Acquisition	-	-	27	-	-	-	27
Foreign exchange differences from measurement in presentation currency	-	2	-	-	-	-	2
Reductions, including:	-	-	5	-	6	-	11
Liquidation and sale	-	-	3	-	6	-	9
Foreign exchange differences from measurement in presentation currency	-	-	2	-	-	-	2
Gross value as at 31.12.2019	**-**	**24**	**252**	**-**	**32**	**-**	**308**
Accumulated depreciation as at 01.01.2019	**-**	**14**	**187**	**-**	**32**	**-**	**233**
Additions	-	2	42	-	1	-	45
Reductions	-	-	3	-	1	-	4
Accumulated depreciation as at 31.12.2019	**-**	**16**	**226**	**-**	**32**	**-**	**274**
Net value as at 01.01.2019	**-**	**8**	**43**	**-**	**6**	**-**	**57**
Net value as at 31.12.2019	**-**	**8**	**26**	**-**	**-**	**-**	**34**

Note 3.3 Ownership structure of property, plant and equipment

Property, plant and equipment	31.12.2020	31.12.2019
Owned	16	34
Third party	-	-
Total	**16**	**34**

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

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

There are no fixed assets in the Group used under lease, rental and other similar agreements that would not be depreciated or redeemed. The Group does not have perpetual usufruct of land.

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

In the period from 1 January to 31 December 2020 and in the comparable period of 2019, the Group did not incur costs for the production of fixed assets for its own use.

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

Item	01.01.2020 – 31.12.2020	1.01.2019 – 31.12.2019
Expenditures incurred on property, plant and equipment	2	28
Expenditures incurred on intangible assets	1 812	2 796
Total	**1 814**	**2 824**

Due to the coronavirus pandemic, the Group expects that in 2021 the expenditures on intangible assets will be maintained at the level of expenditures incurred in 2020. In the period from 1 January to 31 December 2020 and in the comparable period of 2019, the Group did not incur expenditures for environmental protection. The Group does not intend to make any environmental protection expenditures in 2021.

Note 3.7 Right-of-use assets

Right-of-use assets	31.12.2020	31.12.2019
Real estate right-of-use asset	71	171
Other assets	-	-
Total	**71**	**171**

As all the right-of-use assets relate to one category (rental of premises), the changes are presented without specifying the categories.

As at 31 December 2020 and 31 December 2019, the subsidiaries, i.e. Silvair Sp. z o.o. and Sway Sp. z o.o, were parties to a lease agreement for a property in Kraków at ul. Jasnogórska. As at 31 December 2019, the agreement was signed until 31 December 2020.

On 2 March 2020, there was a change in the terms of agreements granting the right to use the property in which Silvair Sp. z o.o. and Sway Sp. z o.o. conduct their activities. The amendment to the agreements provides for a reduction in the monthly rent in the period from March to December 2020, and a change in the lease area from 2 March 2020.

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

In connection with the change of agreements, the value of the right to use and of the lease liability decreased by USD 107 thousand.

On 1 December 2020, the lease agreements were extended for another period, i.e. until 31 December 2021.

In connection with the change in agreements, the Group reassessed the qualification of the contracts in accordance with IFRS 16 and concluded that the amended contracts still meet the criteria for recognizing the right to use assets.

Information on the Agreements themselves is included in Note 38 Transactions with related entities.

Item	**01.01.2020 – 31.12.2020**	**01.01.2019 – 31.12.2019**
Gross value at the beginning of the period	**332**	**-**
Additions, including:	71	332
Acquisition	71	-
Internal relocation	-	332
Reductions, including:	107	-
Value update (change of contract terms)	107	-
Foreign exchange differences from measurement in presentation currency	-	-
Gross value at the end of the period	**296**	**332**
Accumulated depreciation at the beginning of the period	**161**	**-**
Additions	84	161
Reductions, including:	20	
Foreign exchange differences from measurement in presentation currency	20	-
Accumulated depreciation at the end of the period	**225**	**161**
Net value at the beginning of the period	**171**	**-**
Net value at the end of the period	**71**	**171**

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

Note 4 Financial assets (long-term)

Financial assets (long-term)	**31.12.2020**	**31.12.2019**
In related entities	-	-
In other entities	7	7
Total	**7**	**7**

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

Note 5 Deferred tax assets

Deferred tax assets	**31.12.2020**	**31.12.2019**
Deferred tax assets at the beginning of the period, including:	**627**	**620**
Through profit or loss	614	620
Through equity	13	-
Additions	**209**	**395**
Through profit or loss	209	382
Through equity	-	13
Reductions	**260**	**388**
Through profit or loss	260	388
Through equity	-	-
Deferred tax assets at the end of the period, including:	**576**	**627**
Through profit or loss	563	614
Through equity	13	13

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

Deferred tax assets arising from temporary differences resulting from:	**31.12.2020**	**31.12.2019**
Accumulated tax losses to be used	9 051	9 263
Impairment losses on deferred tax assets up to the amount of tax losses available for use in the future (calculation based on the financial budget)	-6 017	-5 965
Total	**3 034**	**3 298**
Deferred tax assets (19%)	**576**	**627**

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

Deferred tax assets are calculated using tax rates that are expected to be effective in the period when particular asset is realized or the provision is released, based on tax rates (and tax legislation) enacted or substantively enacted as at the balance sheet date.

Estimates:

The Group evaluates as at each balance sheet date the possibility of realization of the deferred tax asset. This assessment requires a professional judgment and estimates regarding, among others, future tax results. The analysis of anticipated tax revenues has shown a limited possibility of settling the tax loss for 2018 and partially for 2019. Therefore, the Group has made a decision to recognize an additional impairment loss for deferred tax assets.

The recognized deferred tax assets cover the loss from 2020 and partly from 2018 and 2019. The adopted assumptions regarding the probability of realization of revenues by the Group in individual years justify the keeping of the asset on the presented level.

Regulations regarding corporate income tax are subject to frequent changes, as a result of which there is often no reference to well-established line of rulings. The prevailing regulations are not always unambiguous, which additionally leads to differences in their interpretation. Tax settlements are subject to audits by tax authorities. If irregularities are identified in the tax settlements the taxpayer is obligated to pay the overdue amount together with the statutory interest due. Payment of overdue liabilities does not always release the taxpayer from criminal tax liability.

As a result of the aforementioned phenomena, tax settlements are burdened with risk. Tax settlements may be subject to audit within a period of five years from the end of the year in which the tax returns were submitted. As a result, the amounts reported in the financial statements, and thus the basis for calculation of the asset on tax losses and the asset itself may change at a later date after their final determination by the tax authorities.

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

Note 6 Inventory

Inventory	31.12.2020	31.12.2019
Goods for resale	49	47
Impairment loss on goods	-44	-38
Total	**5**	**9**

Inventory releases are recognized using the detailed identification method. As at each balance sheet date the Company analyzes whether the carrying amount of inventory is higher than or equal to the realizable sales price. Impairment losses on the inventory are recognized in operating expenses. As at 31 December 2020, due to too long inventory turnover periods, the impairment loss increased compared to 31 December 2019.

Note 7 Trade receivables

Trade receivables	31.12.2020	31.12.2019
From related entities	-	-
From other entities	146	74
Impairment losses	-43	-26
Total	**103**	**48**

Note 7.1 Impairment losses on trade receivables

As at 31 December 2020, impairment losses on trade receivables amounted to USD 43 thousand. As at 31 December 2019, impairment losses on trade receivables amounted to USD 26 thousand. The change of the impairment loss results from differences in measurement of the receivable subject to the impairment loss.

To estimate the impairment losses on trade receivables, the Group uses historical past due dates and the link between the arrears and the actual repayments over the last 2 years, taking into account the available information regarding the future. The applied model is presented in the section ”Description of adopted accounting policies”. Since the Group's sales revenues appeared in material amounts only in 2019, the adopted method of estimating impairment losses will be verified by the Group on the basis of data available in the following years.

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

Note 7.2 Aging of trade receivables

Trade receivables	31.12.2020	31.12.2019
Not overdue	76	17
Overdue, including:	27	31
Up to one month	3	4
Over 1 month to 3 months	14	4
Over 3 months to 6 months	13	21
Over 6 months to 1 year	10	2
Over 1 year	30	26
Impairment losses on receivables	-43	-26
Trade receivables, including:	**103**	**48**
Overdue receivables (gross)	70	57

Note 8.1 Other receivables

Other receivables	31.12.2020	31.12.2019
On taxes and other public benefits	66	223
Other receivables	6	-
Impairment losses	-	-
Total	**72**	**223**

Note 8.2 Impairment losses on other receivables

As at 31 December 2020 and 31 December 2019, the Group did not recognize any impairment losses on other short-term receivables.

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

Note 9 Prepayments and accruals

Prepayments and accruals	31.12.2020	31.12.2019
Fees for fairs and conferences	18	40
IT services	2	12
Other	8	9
Total	**28**	**61**

In accruals, the Group presents expenditures which pertain to future periods incurred before the balance sheet date. Prepayments and accrued income as at 31 December 2020 and as at the end of the comparable period comprised mainly the costs of prepaid participation in fairs and conferences associated with presentation of the Group's activity, and license fees to be incurred in the profit and loss account successively in future periods.

Note 10 Financial assets (short-term)

Financial assets (short-term)	31.12.2020	31.12.2019
In related entities	-	-
In other entities	-	-
Total	**-**	**-**

Note 11 Cash and cash equivalents

Cash and cash equivalents	31.12.2020	31.12.2019
Cash on hand	1	1
Cash in bank	2 818	1 295
Total	**2 819**	**1 296**

Note 11.1 Explanation to selected items of the cash flow statement

The line item "Other adjustments resulting from operating activity" shows the value charged to the general and administrative expenses corresponding to the value of accrued option capital, taking into account the executed portion in the amount of USD 483 thousand. The difference between the item "Net proceeds from the issue of shares and capital contributions" and the Statement of Changes in Equity relates to the accrued (non-cash) value of the option capital.

Note 12 Share capital

Share capital of the Parent Company as at 31.12.2020

Type	Number of shares	Par value (USD ’000s)	Share subscription price (USD ’000s)	Share premium account (USD ’000s)
Common Stock	12 465 927	1 247	24 214	22 967
Preferred Stock	960 000	96	125	29
Total	**13 425 927**	**1 343**	**24 339**	**22 996**

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	1 904 672	14.19	3 536 762	19.40
Szymon Słupik	1 884 711	14.04	3 529 871	19.37
Adam Gembala	1 018 760	7.59	2 145 520	11.77
Ipopema TFI	968 759	7.22	968 759	5.32
Other shareholders holding less than 5% of shares	7 649 025	56.96	8 075 015	44.14
Total	**13 425 927**	**100.00**	**18 255 927**	**100.00**

(1) 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 Group’s shareholders do not hold any other voting rights than the rights specified above.

On 26 October 2020, the Board of Directors of Silvair, Inc. adopted a resolution regarding the offer of new shares of common stock issued within the Company’s authorized capital (“New Shares”) (“Offer”). Under the Offer, the Company planned the issue of 815,000 New Shares at the issue price of PLN 7.5 and on the terms and conditions set forth in the conditional placement agreement executed on 26 October 2020 by the Company and Trigon Dom Maklerski S.A. (“Trigon”). The Issuer made this information public on the same day in its Current Report no. 23/2020.

The Offer was carried out in the form of a public offering in Poland, addressed only to investors purchasing New Shares with a total value of at least EUR 100,000 per investor, as referred to in Art. 1, section 4, letter (d) of Regulation 2017/1129 of the European Parliament and of the Council (EU) of 14 June 2017 on the prospectus to be published in connection with a public offering of securities or their admission to trading on a regulated market and the repeal of Directive 2003/71/EC ("Prospectus Regulation"); and the private subscription of New Shares outside the United States of America as defined in Regulation S ("Regulation S") issued under the US Securities Act of 1933, as amended ("US Securities Act"). The Company's shareholders did not have any pre-emptive or similar rights with respect to the New Shares. Due to the fulfillment of the conditions set out in the Prospectus Regulation, the requirement to prepare and publish an issue prospectus in connection with the Offer did not apply.

On 17 November 2020, the Issuer informed in its Current Report No. 25/2020 that the Company had completed the process of concluding agreements with investors for the acquisition of 815,000 new shares of common stock issued as part of the authorized capital of the Company ("New Shares") under the Offer. The cash contributions to cover all of the New Shares were made in full. On 25 November 2020, the Company informed – in its Current Report No. 26/2020 - about the successful completion of the issue of securities, as a result of which the Company raised PLN 6.1 million.

On 15 December 2020, a conversion of amounts due under the securities convertible into the Company's common shares of new issue ("Convertible Securities") with a total nominal value of USD 1,662 thousand took place. The Company issued to the owners of Convertible Securities a total of 1,073,757 common bearer shares, which was announced by the Issuer in Current Report No. 31/2020. In 2020, no redemption or repayment of non-equity and equity securities took place.

As at 31 December 2020, all of the 13,425,927 issued shares have been paid in full.

Share capital of the Parent Company as at 31.12.2019

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

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

([1]) Ipopema TFI has taken over the management of the funds earlier managed by Lartiq TFI in connection with the decision of the Polish Financial Supervision Authority ("KNF") of 5 November 2019, based on which Lartiq TFI's permit to conduct activity has been withdrawn

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

As at 31 December 2019, out of 11,425,670 issued shares, 11,405,420 shares have been paid in full, and the number of unpaid shares was 17,250.

Note 13 Capital from revaluation of options

Capital from revaluation of options	31.12.2020	31.12.2019
Valuation of stock options under IFRS 2	483	375
Total	**483**	**375**

See Note 30 for additional information on valuation of options.

Note 14.1 Other capital

Other capital	31.12.2020	31.12.2019
Supplementary capital	24 819	21 253
Total	**24 819**	**21 253**

Note 14.2 Changes in other capital

Changes in other capital	01.01.2020 – 31.12.2020	01.01.2019 - 31.12.2019
As at the beginning of the period	**21 253**	**21 147**
Exercise of stock options for Company shares	431	108
Expenditures incurred in connection with the stock issue	-61	-
Issue of new shares (IPO)	1 532	-
Unpaid capital which has been called up	-	-2
Issue of bonds convertible to shares	1 664	-
As at the end of the period	**24 819**	**21 253**

Note 14.3 Minority interest transactions

The use of this balance sheet item is the consequence of the transactions that took place in 2018 and pertains to issue of bonds and their exchange for the shares in the Parent Company in return for the right to shares in the subsidiary Sway. This event was described in detail in the annual consolidated statements for 2019.

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

As at 31 December 2020, the value of equity attributable to Non-Controlled Entities was adjusted to the value of zero in correspondence with the item "Minority interest transactions". As at 31 December 2020, the value of line item "Minority interest transactions" amounted to USD -365 thousand.

Minority interest transactions	01.01.2020 -31.12.2020	01.01.2019 -31.12.2019
As at the beginning of the period	**-445**	**-445**
Additions	80	-
Reductions	-	-
As at the end of the period	**-365**	**-445**

Note 15 Retained earnings

Retained earnings	31.12.2020	31.12.2019
Accumulated losses brought forward	-15 707	-11 840
Total	**-15 707**	**-11 840**

Note 16 Earnings (loss) per share

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

Diluted earnings/(loss) per share are calculated by dividing the net profit/(loss), adjusted for the impact of interest on potential common shares, for the reporting period, attributable to the shareholders of the parent company, 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 Parent Company shares in the period from 1 January 2020 to the publication date.

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

Earnings/(loss) per share in the period covered by the financial statements	**31.12.2020**	**31.12.2019**
Weighted average number of parent company's shares in the period*	11 623 851	11 385 512
Diluting options, including:	2 470 328	825 479
On account of the option plan	815 835	566 016
On accounts of bonds	1 654 493	259 463
Weighted average number of parent company's shares in the period* after diluting options	14 094 179	12 210 991
Continued operations		
Earnings/(loss) per share (USD)	-0,22	-0,34
Diluted earnings/(loss) per share (USD)	-0,19	-0,31
Discontinued operations		
Earnings/(loss) per share (USD)	-	-
Diluted earnings/(loss) per share (USD)	-	-
Continued and discontinued operations		
Earnings/(loss) per share (USD)	-0,22	-0,34
Diluted earnings/(loss) per share (USD)	-0,19	-0,31

* The amount was updated after recalculation in the period.

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

Note 17 Deferred tax liabilities

Deferred tax liabilities	31.12.2020	31.12.2019
Deferred tax liabilities at the beginning of the period, including:	**24**	**28**
Through profit or loss	24	28
Through equity	-	-
Additions, including:	-	-
Through profit or loss	-	-
Through equity	-	-
Reductions, including:	**4**	**4**
Through profit or loss	4	4
Through equity	-	-
Deferred tax liabilities at the end of the period, including:	**20**	**24**
Through profit or loss	20	24
Through equity	-	-

Deferred tax liabilities arising from temporary differences resulting from:	31.12.2020	31.12.2019
Difference between the tax value and carrying amount of completed development work	105	126
Total	105	126
Deferred tax liabilities (19%)	**20**	**24**

Note 18 Other liabilities (non-current)

Other liabilities	31.12.2020	31.12.2019
PARP loan	-	11
Other loans from other entities	-	-
Total	-	**11**

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

Note 18.1 Lease liabilities

Lease liabilities	31.12.2020	31.12.2019
Long-term	-	-
Short-term	71	171
Total	**71**	**171**

The lease liability pertains to real property lease agreements which, pursuant to IFRS 16, have been classified to lease liabilities. Information related to the agreements included in this item is presented in Note 3.7 Right-of-use asset, and Note 38 Transactions with related entities.

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

Repayment of the interest part in the reporting period amounted to USD 1 thousand.

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

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

Note 19.1 Trade liabilities

Other liabilities	31.12.2020	31.12.2019
To related entities	-	-
To other entities	372	231
Total	**372**	**231**

Note 19.2 Aging of trade liabilities

Trade liabilities	31.12.2020	31.12.2019
Up to one month	371	224
Over 1 month to 3 months	-	-
Over 3 months to 6 months	-	-
Over 6 months to 1 year	-	-
Over 1 year	-	-

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

Overdue, including:	**1**	**7**
Up to one month	-	6
Over 1 month to 3 months	-	-
Over 3 months to 6 months	-	-
Over 6 months to 1 year	-	1
Over 1 year	1	-
Total	**372**	**231**

Note 20.1 Other liabilities (current)

Other current liabilities	31.12.2020	31.12.2019
To related entities	-	-
To other entities, including:	227	345
On loans	129	133
On taxes and other public benefits	54	113
On payroll	43	92
Other	1	7
Total	**227**	**345**

In 2015, a subsidiary received a loan from the Polish Agency for Enterprise Development (PARP) for financing the purchase of intangible assets and financing the costs of completed development works. The loan repayment date is 21 January 2021. In order to secure the loan granted by the Polish Agency for Enterprise Development (PARP) in the amount of PLN 2 million, whose balance as at 31 December 2020 amounted to PLN 485 thousand (USD 129 thousand), and as at 31 December 2019 – to PLN 564 thousand (USD 133 thousand), the company Sway Sp. z o.o. has issued a blank promissory note.

Since 25 February 2020, the Group does not repay on an ongoing basis the installments of the investment loan from the Polish Agency for Enterprise Development (PARP) which was contracted by Sway in 2013. The Group has requested PARP to postpone repayment of these installments due to the effects of the COVID-19 pandemic. The value of unpaid installments as at the date of publication is PLN 442.5 thousand (USD 118 thousand).

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

Note 20.1.1 Liabilities on bonds convertible to shares

Other liabilities (non-current)	31.12.2020	31.12.2019
Bonds convertible to shares	2 085	-
Interest on bonds convertible to shares	103	-
Total	**2 188**	**-**

Other liabilities (current)	31.12.2020	31.12.2019
Bonds convertible to shares	1 662	2 912
Interest on bonds convertible to shares	135	42
Total	**1 797**	**2 954**

Liabilities on bonds convertible to shares	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
As at the beginning of the period	2 954	-
Additions	2 803	2 954
Reductions	1 772	-
Total	**3 985**	**2 954**

Bonds convertible to shares	31.12.2020	31.12.2019
Par value of issued bonds	3 850	2 912
Interest costs	135	42
Interest paid	-	-
Bond liability	**3 985**	**2 954**

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

The terms of the Convertible Securities define the mechanisms for conversion of claims following from the Convertible Securities, comprising a claim for payment of the par value of the Convertible Securities and accrued interest ("Conversion Amount") to the Company's common shares of a new issue in the case: (i) the Company effects a new share issue in one or several related transactions bringing gross receipts for the

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

On 10 August 2020, the Board of Directors adopted resolutions on significant changes to the terms of the issue of the Convertible Securities ("Revised Convertible Securities") issued pursuant to the decision of the Company's Board of Directors of 8 August 2019. The content of the adopted resolution was made public by the Company in Current Report No. 17/2020. The terms of the Revised Convertible Securities provide that:

- The total par value of liabilities that the Company may incur under the Revised Convertible Securities is increased from USD 5.5 million to USD 6.0 million;
- The Maturity Date of the Revised Convertible Securities is changed so that the holders of the Revised Convertible Securities have the right to request redemption of the Revised Convertible Securities and payment of the principal amount with interest accrued and unpaid at any time after 31 December 2020, 2021, or 2022, respectively, depending on the terms of issue and the date of issue of individual Revised Convertible Securities;
- The conversion mechanism is modified in such a way that the Conversion Amount will be converted into common shares of the new issue of the Company only in the event of: (i) Change of Control; (ii) or on 15 December 2020, 2021, or 2022 (depending on the terms and date of issue of the relevant Revised Convertible Security), whereby the conversion will not result in a determination that the Company will issue within the preceding 12 months: (i) 20% of the number of the Company's shares admitted to trading on the regulated market operated by the Warsaw Stock Exchange on a date falling 12 months before the conversion, nor (ii) shares in the amount specified in the Revised Convertible Securities, i.e. 1,073,757 shares in 2020, 1,168,928 shares in 2021 and 1,423,178 shares in 2022, depending on whichever number of shares is lower;
- Revised Convertible Securities will be converted into newly issued common stock of the Company at a fixed price of USD 1.65 ("Conversion Price"). In particular, as a result of the Conversion, the Company will issue its common shares to the holders of the Revised Convertible Securities in the number equal to the quotient of the Conversion Amount and the Conversion Price.

On 13 July 2020, as part of the change to the terms of the issue of the Convertible Securities adopted by the Board of Directors, the Company issued Revised Convertible Securities with a nominal value of USD 1.8 million. The content of the notification was made public by the Company in Current Report No. 20/2020.

On 15 December 2020, a conversion of amounts due under the securities convertible into the shares of new issue ("Shares") with a total nominal value of USD 1,662 thousand took place. The conversion of the

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

Convertible Securities into Shares took place on the terms set out in the terms of the issue of the Convertible Securities specified in the resolutions of the Company's Board of Directors of 8 August 2019 and 10 August 2020, which was announced by the Issuer in Current Report No. 31/2020.

By 31 December 2020, the Company has issued Convertible Securities with a total nominal value of USD 5.512 million

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 20.2 Contingent liabilities, including guarantees and sureties extended by the Group, including promissory notes

As at 31 December 2020 and 31 December 2019, the Group had no other contingent liabilities. As at 31 December 2020 and 31 December 2019, the Group's companies were not acting as guarantors or sureties and also had not drawn its own or received third party promissory notes as collateral or payment for a transaction. Contingent liabilities related to loans are described in Note 20.1 Other liabilities (current).

Note 20.3 Other short-term provisions

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

In 2020, the Entity did not recognize provisions for liabilities. As at 31 December 2019, the Group recognized a provision for USD 20 thousand in connection with information received from a lawyer about claim for payment of a "license fee" from JSDQ. In the opinion of Silvair, Inc., it does not breach JQSD's patent. Nonetheless, considering the time and potential costs of the litigation in the case, if any, on 10 September 2020, the Company concluded a "Release and license agreement" with JSDQ for the amount of USD 3.5 thousand. Under this agreement, JSDQ waived its claims regarding potential infringements of its patents by the Company. JSDQ has also granted a license to the Company and its subsidiaries for the use of specific JSDQ technological solutions covered by patent protection in products and services.

Other short-term provisions	**31.12.2020**	**31.12.2019**
Provision for unused vacation time	45	62
Provisions for disputes	-	20
Total	**45**	**82**

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

Provisions for unused vacation time	31.12.2020	31.12.2019
As at the beginning of the period	**62**	**52**
Additions	-	13
Reductions	17	3
As at the end of the period	**45**	**62**

Estimates:

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

The estimates pertaining to the value of provisions for unused vacation time were based on the data on the number of vacation time days unused by employees, the value of the average compensation individually for each employee divided by the average number of business days per month (22 days), and the charges on compensations charged to the employer. The percentage rate of social security charged to the employer was adopted at the level of 20.61% for the year 2019 and 22.11% for the year 2020 in connection with contributions to PPK (Employee Capital Plan).

Note 20.4 Liabilities from contracts with customers

Liabilities from contracts with customers	01.01.2020	Additions	Reductions	31.12.2020
Maintenance services for Silvair Platform	29	191	94	126
Maintenance services for Silvair Mesh Stack	7	24	26	5
Total	**36**	**215**	**120**	**131**

Liabilities from contracts with customers	01.01.2019	Additions	Reductions	31.12.2019
Maintenance services for Silvair Platform	-	76	47	29
Maintenance services for Silvair Mesh Stack	-	12	5	7
Total	**-**	**88**	**52**	**36**

As at 31 December 2020 and as at 31 December 2019, the Group identified liabilities associated with maintenance agreements according to the description in section Operating revenues in the Explanatory note to the financial statements and Note 23.

The payment terms specified in the agreements do not exceed 60 days. Elements such as obligations to accept returns or to refund the fees and other similar obligations, as well as warranties and related obligations, do not apply to liabilities from contracts with customers. The Group settles the identified performance obligations using the straight-line method, spread evenly over time, as the activities are performed evenly throughout the entire period of performance.

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

Liabilities from contracts with customers by maturity:

Maturity periods	31.12.2020	31.12.2019
Up to one month	11	4
Over 1 month to 3 months	21	8
Over 3 months to 6 months	26	11
Over 6 months to 1 year	30	5
Over 1 year to 3 years	25	4
Over 3 to 5 years	18	4
Total	**131**	**36**

Note 21 Prepayments and accruals

Prepayments and accruals	01.01.2020	Additions	Reductions	31.12.2020
Financing under the Smart Growth Operational Program	343	29[1]	-	372
NCBiR subsidy for fixed assets	539	-	85	454
Total	**882**	**29**	**85**	**826**

(1) The change results from the exchange rate translation

Prepayments and accruals	01.01.2019	Additions	Reductions	31.12.2019
Financing under the Smart Growth Operational Program	448	-	105	343
NCBiR subsidy for fixed assets	614	-	75	539
Total	**1 062**	**-**	**180**	**882**

In 2019, the amount of grant from the National Center for Research and Development (NCBiR) decreased by PLN 400 thousand (USD 100 thousand) returned by a company from the Group (Sway) in connection with the decision to reduce the extent of development work in the implemented project. The Company finished the project after completing stage II of the Milestone. The decision was caused by a change in priorities of the development work.

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

Prepayments and accruals	31.12.2020	31.12.2019
Non-current part	389	449
Current part	437	433
Total	**826**	**882**

Note 22.1 Sales revenues

Sales revenues	31.12.2020	31.12.2019
Revenues from sales of products	240	79
Revenues from sales of goods and services	132	98
Total	**372**	**177**

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

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

Under **Commissioning Service Agreements (CSA)**, the Group delivers, maintains and operates applications for activation and control of the lighting management software for and on behalf of the Partner. Under these services it is also possible to provide the Silvair platform for lighting installations that are not based on the firmware developed by Silvair.

Revenues under CSA agreements are included in the Lighting Control segment.

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

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

Revenues under SLS contracts are included in the Lighting Control segment.

Breakdown of revenues from contracts with customers:

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

Contract type				**01.01.2020 - 31.12.2020**
Product/service type	**CSA agreements**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	-	141	-	141
Activation	99	-	-	99
Development	4	-	-	4
Maintenance	91	9	-	100
Other	7	21	-	28
Total	**201**	**171**	**-**	**372**
Delivery date				
At the time	126	150	-	276
Over time	75	21	-	96
Total	**201**	**171**	**-**	**372**

Contract type				**01.01.2019 - 31.12.2019**
Product/service type	**CSA agreements**	**SLS agreements**	**Other revenues from contracts**	**Total**
Firmware license	-	45	1	46
Activation	33	-	-	33
Development	46	-	-	46
Maintenance	38	9	-	47
Other	-	4	1	5
Total	**117**	**58**	**2**	**177**
Delivery date				
At the time	79	51	2	132
Over time	38	7	-	45
Total	**117**	**58**	**2**	**177**

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

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

Estimates:

In the case of obligations performed over time (service and maintenance), the Group used the straight-line method to recognize revenues, pro rata to the elapse of time. The entity's actions and expenditures are executed evenly throughout the entire period of performance. In the case of revenues recognized at the time, the Group has made a judgment that the licenses offered under SLS agreements have the nature licenses with the right to use intellectual property, which means that the revenue from the sale of such licenses is recognized once, at the time of hand-over of control over the license to the customer. In the case of granting access to the Silvair Platform, the Group estimated that the benefits are transferred at the time of activation of access to the Platform for each connected device.

Note 22.2 Sales revenues – geographic structure

Sales revenues	01.01.2020 - 31.12.2020	01.01.2020 - 31.12.2019
Revenues from sales of products, including:	**240**	**79**
Domestically	-	1
Within the European Union	55	48
In third countries	185	30
Revenues from sales of services and goods, including:	**132**	**98**
Domestically	-	-
Within the European Union	66	50
In third countries	66	48
Total	**372**	**177**

Information on sales revenues – main buyers:

In 2020, the Group generated sales exceeding 10% of consolidated revenues in cooperation with four buyers:

- buyer A: 22.69 % of the Group's total consolidated sales revenues,
- buyer B: 16.38 % of the Group's total consolidated sales revenues,
- buyer C: 12.43 % of the Group's total consolidated sales revenues,
- buyer D: 10.87% of the Group's total consolidated sales revenues.

In 2019, the Group generated sales exceeding 10% of consolidated revenues in cooperation with three buyers:

- buyer A: 41.6% of the Group's total consolidated sales revenues,

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

- buyer B: 18.4% of the Group's total consolidated sales revenues,
- buyer C: 15.84% of the Group's total consolidated sales revenues.

The buyers listed above are not affiliates or subsidiaries of Silvair, Inc. As predicted by the Group, the increase in the share of one customer reported in 2019, which resulted from a longer period of cooperation, decreased in 2020 as shares in revenues became more dispersed.

Information on sales revenues – geographic structure

Country	Sales to external customers	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
European Union including Poland	USD	121	99
	%	33%	56%
Other countries	USD	251	78
	%	67%	44%
Total revenues	USD	372	177
	%	100%	100%

Note 23 Operating segments

Pursuant to IFRS 8, an operating segment is a component of an entity that is a profit center, that has discrete financial information available, and whose results are reviewed regularly by the entity's chief operating decision maker for purposes of performance assessment and resource allocation. The segments have been distinguished taking into account the uniqueness of the Group's activity and its directions of development, and the possibility of generating revenues by such segments in the long run. It was taken into account whether there is a significant possibility of allocating the costs and assigning the assets to the distinguished segments.

Currently, the Group distinguishes 3 segments: Lighting Control, Smart Lighting Services, and Smart Building Management. In the reporting period, the Group earned revenues only in the Lighting Control segment. Revenues in the other two segments will show up next year. The item Revenues from other activities includes revenues from former Wi-Home and Proxi segments which are discontinued.

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

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

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

Operating segment information from 01.01.2020 to 31.12.2020, in USD ’000s

Segment type	Lighting Control	Other activity	Total
Revenues and expenses			
Sales to external customers	372	-	372
Inter-segment sales	-	-	-
Cost of sales	804	-	804
Income and expenses (operating and other operating)	-17	-2 024	-2 041
EBIT	**-449**	**-2 024**	**-2 473**
Net financial income (costs)	-	-74	-74
Share in profits of associates	-	-	-
Gross profit	**-449**	**-2 098**	**-2 547**
Income tax (current and deferred)	-	62	62
Net profit for the reporting period	**-449**	**-2 130**	**-2 609**
Assets			
Costs of development work (carrying amount of assets)	9 810	962	10 772
Receivables	103	-	103
Unallocated assets	-	3 664	3 664
Total assets			**14 539**
Liabilities			
Financial liabilities	-	3 985	3 985
Liabilities from contracts with customers	131	-	131
Unallocated liabilities	-	1 561	1 561
Total liabilities			**5 677**
Other information	-	-	-
Depreciation and amortization	804	319	1 123

Operating segment information from 01.01.2019 to 31.12.2019, in USD ’000s

Segment type	Lighting Control	Other activity	Total
Revenues and expenses	**175**	**2**	**177**
Sales to external customers	175	2	177
Inter-segment sales	-	-	-
Cost of sales	679	51	730
Income and expenses (operating and other operating)	-44	-3 128	-3 172
EBIT	**-548**	**-3 177**	**-3 725**
Net financial income (costs)	-	-156	-156
Share in profits of associates	-	-	-
Gross profit	**-548**	**-3 333**	**-3 881**
Income tax (current and deferred)	-	25	25
Net profit for the reporting period			**-3 906**
Assets			
Costs of development work (carrying amount of assets)	8 085	1 811	9 896
Receivables	47	224	271
Unallocated assets	-	2 222	2 222
Total assets			**12 389**
Liabilities			
Financial liabilities	-	315	315
Liabilities from contracts with customers	36	-	36
Unallocated liabilities	-	4 385	4 385
Total liabilities			**4 736**
Other information	-	-	-
Depreciation and amortization	679	505	1 184

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

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

Segment type			01.01.2020 - 31.12.2020
	Lighting Control	Other activity	Total
Region			
European Union	121	-	121
Other countries	251	-	251
Poland	-	-	-
Total	**372**	**-**	**372**
Product/service type			
Firmware license	141	-	141
Activation	99	-	99
Development	4	-	4
Maintenance	100	-	100
Other	28	-	28
Total	**372**	**-**	**372**
Delivery date			
At the time	276	-	276
Over time	96	-	96
Total	**372**	**-**	**372**

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

Segment type			01.01.2019 - 31.12.2019
	Lighting Control	Other activity	Total
Region			
European Union	91	1	92
Other countries	84	-	84
Poland	-	1	1
Total	**175**	**2**	**177**
Product/service type			
Firmware license	45	1	46
Activation	33	-	33
Development	46	-	46
Maintenance	47	-	47
Other	4	1	5
Total	**175**	**2**	**177**
Delivery date			
At the time	130	2	132
Over time	45	-	45
Total	**175**	**2**	**177**

Note 24 Other operating income

Other operating income	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Profit on the sale of non-financial non-current assets	6	-
Revaluation of non-financial assets	-	6
Released public and legal receivables	72	-
Other operating income	94	85
Total	**172**	**91**

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

Note 25 Other operating expenses

Other operating expenses	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Revaluation of non-financial assets	24	688
By segments:		
Lighting Control	17	207
Other	7	481
Other operating expenses	7	63
Total	**31**	**751**

The costs related to the revaluation of assets are described in Notes 1.1 and 1.2 and in Notes 6 and 7.

Note 26 Breakdown of costs

Other operating income	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Depreciation and amortization	1 123	1 184
Consumption of materials and energy	81	84
External services	1 503	2 803
Taxes and fees	7	15
Payroll	988	1 430
Social security and other benefits	191	317
Other costs by nature	33	214
Cost of products and materials sold	-	-
Total costs by type	**3 926**	**6 047**
Movement in inventory of products and production cost of products for own use (development work)	**940**	**2 805**
Cost of sales	804	730
Selling and distribution expenses	467	599
General and administrative expenses	1 715	1 913
Total costs by function	**2 986**	**3 242**

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

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

Note 27 Financial income

Financial income	**01.01.2020 - 31.12.2020**	**01.01.2019 - 31.12.2019**
Interest, including:	-	10
Interest on bank deposits and accounts	-	10
Foreign exchange differences	171	11
Total financial income	**171**	**21**

Note 28 Financial costs

Financial income	**01.01.2020 - 31.12.2020**	**01.01.2019 - 31.12.2019**
Interest, including:	209	61
To other entities, including:	209	61
Interest on financial liabilities	203	42
Interest on received loans	5	10
Interest on lease agreements	1	9
Foreign exchange differences	-	116
Other	36	-
Financial costs	**245**	**177**

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

Item	**01.01.2020 - 31.12.2020**	**01.01.2019 - 31.12.2019**
Profit before tax	**-2 547**	**-3 382**
Costs not classified as tax-deductible expenses, including:	**809**	**1 204**
Depreciation and amortization	79	80

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

PFRON disability fund tax	8	13
Unpaid interest	12	-
Unpaid payroll and social security contributions	17	68
Foreign exchange differences in the balance sheet	36	45
Impairment losses	24	693
Other costs, including:	633	369
Valuation of stock options (Note 30)	539	330
Costs of the previous year recognized as tax-deductible expenses in the current year	**55**	**49**
Social security contributions (ZUS) from November-December of the previous year, paid in January of the next year	40	35
Other	15	14
Revenues that are not tax revenues	**163**	**82**
Unpaid interest	3	-
Foreign exchange differences in the balance sheet	-	13
Grant	62	63
Other	98	6
Previous year revenues subject to taxation in the current year	**91**	**-**
Interest paid	-	-
Increase in revenues (balance sheet revenues settled over time)	91	35
Income / loss	-1 865	-1 986
Deductions from income (*)	-	-
Taxation base	**-1 865**	**-1 986**
Tax – Parent Company	15	23
Impact of movement in asset on deferred tax	-51	-6
Impact of movement in liability on deferred tax	-4	-4
Total charges to profit before tax	**-62**	**-25**

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

The tax rate applicable to the parent company is 27.98% and includes federal tax and state tax.

Reconciliation of the income tax calculated using the tax rate applied by the Parent Company on the result before taxation with the income tax shown in the consolidated statement is as follows:

	01.01.2020 - 31.12.2020	**01.01.2019 - 31.12.2019**
Pre-tax result	-2 547	-3 382
Tax rate applied by the Company after adjusting for federal benefits - including federal tax and state tax	27.98%	27.98%
Tax rate applied by subsidiaries	19%	19%
Income tax according to the domestic rate of the Parent Company	0	0
Income tax reconciliation on account of:		
Change in deferred tax liability on account of the difference between the tax value and the carrying amount of completed development works	4	4
Change in the asset on account of deferred income tax on account of development tax losses	-51	-6
Tax paid in the United States	-15	-23
Income tax	**-62**	**-25**

Note 30 Share-based payment agreements

Description of the agreements:

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

The following were to be granted from the “**Option Pool**”: 132,000 shares to Key Personnel of the Entity, 743,000 shares to the Board, including: 465,000 shares to CEO Rafał Han, 172,000 shares to CTO Szymon Słupik, 106,000 shares to CFO Adam Gembala, and 96,000 shares to Venture FIZ.

According to the KPI Agreement, the Board of Directors has the powers to set the detailed terms and conditions for granting options in the “Option Pool” to the beneficiaries. By 31 December 2020, options have been granted from the “Option Pool” for all the shares for the Board and Venture FIZ, and all the shares for the Key Personnel.

By 31 December 2020, all the options granted to the Board members and Venture FIZ have been exercised, and in the Key Personnel pool, options for 60,000 shares out of 132,000 shares have been exercised.

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

The following were to be granted from the "**Additional Option Pool**": 279,000 shares to the Key Personnel of the Entity, and 203,000 shares to CEO Rafał Han.

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

By 31 December 2020, options were granted from the "Additional Option Pool" for all the shares for Rafał Han, and for 93,000 out of 279,000 shares for the Key Personnel. By 31 December 2020, options for 101,500 shares were exercised from the pool of Rafał Han, and no options were exercised from the Key Employee pool.

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. The change is a direct result of the Board's decision to reduce the Group's operating costs - in connection with the coronavirus pandemic and its economic impact – by i.a. reducing employment and changing remuneration conditions for the Group's key employees and associates. In 2020, option contracts were signed for a total of 587,557 shares. This includes option contracts for 437,557 shares that were signed as part of the increase of the Option Plan of 31 March 2020.

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

Summary information on share-based payment programs launched in 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	296 000	437 557
Number of shares acquired in the exercise of options	899 000	101 500	0

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

Option exercise structure in the period::

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Pool of shares under the Option Plan	2 000 000	1 453 000
Number of shares available under the Option Plan at the beginning of the period	**290 750**	**191 000**
Increase of the pool of shares under the Option Plan	547 000	40 250
Number of shares granted under option agreements	587 557	40 250
Number of shares taken up in exercise of the options	111 500	28 000
Number of shares remaining to be taken up in subsequent periods under option agreements	704 057	250 250
Number of shares released upon expiration of options	5 000	140 000
Number of shares to be granted under further option agreements at the end of the period	**295 443**	**290 750**

As at the publication date, the number of shares taken up in exercise of the options has increased to 1,071,215, which is described in Note 31 - Events after the balance sheet date.

The Group has measured the fair value of services received in exchange for equity instruments indirectly, by reference to the fair value of the equity instruments granted. T

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

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

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

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

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Management cost	539	330
Capital from revaluation of options	539	330

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

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
Other capital	431	110
Capital from revaluation of options	-431	-110

The change in capital from revaluation of options in the period between 01.01.2020 and 31.12.2020 resulted from the exercise of 111,500 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 431 thousand.

The change in capital from revaluation of options in 2019 resulted from the exercise of 28,000 stock options and revaluation of the remaining options in the vesting period. The total amount of shares taken up in the performance of option contracts in the period from 1 January to 31 December 2019 was USD 2.8 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 31 Material events after the balance sheet date

The following material events occurred after the balance sheet date:

Information on admitting the Company's shares to public trading

On 23 February 2021, the Issuer informed - in its Current Report No. 6/2021 - that on 23 February 2021 the Management Board of the Warsaw Stock Exchange decided to: 1) introduce to trading on the parallel market, as of 25 February 2021, 1,083,757 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 25 February 2021, in accordance with the decision of the National Depository for Securities No. 206/2021 of 9 February 2021, 1,083,757 common bearer shares with a nominal value of USD 0.10 each, marked with the ISIN code USU827061099, were registered.

Information on the issue of the Company's shares

In connection with the extension of cooperation and the conclusion of a new Agreement with a consultant, on 24 February 2021, the Company issued 41,400 Common Shares with limited transferability (restricted shares) with a nominal value of USD 0.1 each ("Issue") for the benefit of the Company's consultant, as part of the Company's Stock Plan described in the Company's Prospectus approved by the Polish Financial Supervision Authority on 25 June 2018 ("Stock Plan"). The Annex concluded between the Company and its consultant provides for the award of 2,300 shares on each 7th day of the month following 7 December 2020 until 7 June 2022, provided that on the date of granting these shares the consultant maintains the Continuous Service Status within the meaning of the Contract.

Note 32 Information on joint ventures

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

Note 33 Financial risk management objectives and principles

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

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

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

Impact of credit risk on the Group's main operating segments: production of software for remote communication between devices and smart lighting systems, due to its uniqueness, is not exposed to a significant level of this type of risk. Sales in these segments are largely to a stable client base and are made on deferred payment terms. However, since business partners pay the due amounts regularly, the exposure to individual credit risk is not high.

The Group applies internal procedures and mechanisms that mitigate this risk: appropriate client selection, a new client review system and ongoing monitoring of amounts receivable. The Group consistently pursues the recovery of overdue receivables. The Group's credit risk is verified with the use of the model of % share of unpaid receivables in specific time intervals (the model description is included in the section "Description of adopted accounting policies". The Group invests its cash in reliable financial institutions (selected on the basis of ratings). The Group is exposed to immaterial levels of credit risk.

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

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

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

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

In 2020, the Group obtained funds from the issue of bonds and the issue of shares. The Group monitors the risk of shortage of funds through periodic liquidity planning, taking into account the payment due/maturity of assets and liabilities and projected cash flows from operating activity

Financial liabilities by maturity date as at 31.12.2020

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans	118	11	-	-	-
Bond liabilities	-	-	1 797	2 188	-
Trade liabilities	1	371	-	-	-
Lease liabilities	-	18	53	-	-
Total	**119**	**400**	**1 850**	**2 188**	**-**

* The measurement at amortized cost does not differ materially from the carrying amounts. The discount value for bond liabilities amounts to USD 4 thousand.

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

Financial liabilities by maturity date as at 31.12.2019

	On demand	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years
Bank loans	-	35	98	11	-
Bond liabilities	-	-	2 954	-	-
Trade liabilities	7	224	-	-	-
Lease liabilities	-	41	130	-	-
Total	**7**	**300**	**3 182**	**11**	**-**

* The measurement at amortized cost does not differ materially from the carrying amounts. The discount value for bond liabilities amounts to USD 0.7 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. Because of the global character of the business conducted by Silvair, Inc. Group in which most of the revenues are generated in USD and EUR, while most expenses are incurred in PLN, the Group is exposed to risk related to sudden changes in exchange rates, including in particular appreciation of PLN and depreciation of EUR vs. USD. The Group monitors the currency rates and discerns a continuing trend of appreciation of USD vs. PLN. This trend is good for the Group from the perspective of earning revenues in USD and EUR. When significant revenues appear, the Group will take steps to use instruments hedging sudden exchange rate fluctuations. The impact of changes in exchange rates is shown in the tables below.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group does not invest any surplus funds in interestbearing 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 2020 and 2019, the Group 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 Group does not use financial instruments associated with price risk. The Group is not exposed to other price risk.

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

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

- secure short- and medium-term cash flows,
- stabilize fluctuations in the Group'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 Group does not execute transactions on financial markets for speculative purposes.

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

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

Classification of financial instruments according to IFRS 9

Financial assets by balance sheet item	31.12.2020 fair value	31.12.2020 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 .	Measured at amortized cost	
Financial assets						
Interest and shares	7	7	-	-	-	7
Trade receivables	103	103	-	-	103	-
Cash	2 819	2 819	-	-	2 819	-

Financial liabilities by balance sheet item	31.12.2020 fair value	31.12.2020 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Loans	129	129	-	129	-
Debt securities	3 985	3 985	-	3 985	-
Trade liabilities	372	372	-	372	-

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

Financial assets by balance sheet item	31.12.2019 fair value	31.12.2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)			Other
			Measured at fair value through profit or loss	Measured at fair value with changes through other comprehensive income	Measured at amortized cost	
Financial assets						
Interest and shares	7	7	-	-	-	7
Trade receivables	48	48	-	-	48	-
Cash	1 296	1 296	-	-	1 296	-

Financial liabilities by balance sheet item	31.12.2019 fair value	31.12.2019 carrying amount	Classification of financial instruments according to IFRS 9 (carrying amount)		
			Measured at fair value through profit or loss	Measured at amortized cost	Measured at fair value through other comprehensive income
Financial liabilities					
Loans	144	144	-	144	-
Debt securities	2 954	2 954	-	2 954	-
Trade liabilities	231	231	-	231	-

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

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

Year ended 31.12.2020

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	1	-17	-	-16
Cash and cash equivalents	C	-	-12	-	-	-12
Total		**-**	**-11**	**-17**	**-**	**-28**
Financial liabilities						
Bank loans	F	-5	-	-	-	-5
Leases	F	-1	-	-	-	-1
Bond liabilities	F	-203	-	-	-	-203
Trade liabilities	F	-	-25	-	-	-25
Total		**-209**	**-25**	**-**	**-**	**-234**

Year ended 31.12.2019

Financial assets	Category under IFRS 9	Interest income / (expense)	Foreign exchange gains / (losses)	Reversal / (recognition) of impairment losses	Gains / (losses) on measurement	Total
Trade receivables	C	-	-1	3	-	2
Cash and cash equivalents	C	10	-12	-	-	-2
Total		**10**	**-13**	**3**	**-**	**-**
Financial liabilities						
Bank loans	F	-10	-	-	-	-10
Leases	F	-9	-	-	-	-9
Bond liabilities	F	-42	-	-	-	-42
Trade liabilities	F	-	-103	-	-	-103
Total		**-61**	**-103**	**-**	**-**	**-164**

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

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 (hedge accounting)
F – Financial liabilities measured at amortized cost

Sensitivity analysis

As at 31 December 2020 and as at the end of 2019, the Group did not hedge its transactions denominated in foreign currencies.

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

Currency risk 01.01.2020 – 31.12.2020

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

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	7	-1	-	1	-
Trade receivables	103	-4	-	4	-
Cash, including:	2 819	-161	-	161	-
Cash in bank	2 818	-161	-	161	-
Financial liabilities					
Loans	129	13	-	-13	-
Trade liabilities	372	12	-	-12	-

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

Currency risk 01.01.2019 – 31.12.2019

Financial instruments by balance sheet items	Carrying amount of financial instruments	Effect on pre-tax financial result (10% increase)	Effect on equity (10% increase)	Effect on pre-tax financial result (10% decrease)	Effect on equity (10% decrease)
Financial assets					
Interest and shares	7	-1	-	1	-
Trade receivables	48	-3	-	3	-
Cash, including:	1 296	-5	-	5	-
Cash in bank	1 296	-5	-	5	-
Financial liabilities					
Loans	144	14	-	-14	-
Trade liabilities	231	16	-	-16	-

Financial instruments by currency

Year ended 31.12.2020

Financial assets	USD	PLN	EUR	Total
Interest and shares	-	7	-	7
Trade receivables	73	-	30	103
Cash and cash equivalents, including:	1 210	1 602	7	2 819
Cash in bank	1 210	1 601	7	2 818
Financial liabilities	**USD**	**PLN**	**EUR**	**Total**
Bank loans, including:	-	129	-	129
Long-term	-	-	-	-
Short-term	-	129	-	129
Finance leases	-	71	-	71
Bond liabilities	3 985	-	-	3 985
Trade liabilities	248	123	1	372

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

Year ended 31.12.2019

Financial assets	USD	PLN	EUR	Total
Interest and shares	-	7	-	7
Trade receivables	17	-	31	48
Cash and cash equivalents, including:	1 240	48	8	1 296
Cash in bank	1 240	47	8	1 295
Financial liabilities	**USD**	**PLN**	**EUR**	**Total**
Bank loans, including:	-	144	-	144
Long-term	-	11	-	11
Short-term	-	133	-	133
Finance leases	-	171	-	171
Bond liabilities	2 954	-	-	2 954
Trade liabilities	79	150	2	231

Note 33.2 Capital risk management

The Group manages capital to maintain 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 Group 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, leases), while financial capital is the sum of equity and financial liabilities.

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

Item	31.12.2020	31.12.2019
Debt	129	315
Equity	8 862	7 653
Total financial capital	8 991	10 751
Debt ratio	1,43%	3,95%

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

Note 34 Employment in the Group

Item	Average headcount in the period 01.01.2020 – 31.12.2020		
(Persons)	**Total**	**White-collar employees**	**Blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o. o.	33	33	-
Sway Sp. z o. o.	-	-	-
Total	**33**	**33**	**-**

Item	Average headcount in the period 01.01.2019 – 31.12.2019		
(Persons)	**Total**	**White-collar employees**	**Blue-collar employees**
Silvair, Inc.	-	-	-
Silvair Sp. z o. o.	40	40	-
Sway Sp. z o. o.	6	6	-
Total	**46**	**46**	**-**

Note 35 Entity authorized to audit financial statements

The annual consolidated financial statements prepared as at 31 December 2020 and the annual consolidated financial statements prepared as at 31 December 2019 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 consolidated financial statements for 2020 was PLN 22,000.

The net amount of the contractor's fee for auditing the annual consolidated financial statements for 2019 was PLN 22,000.

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

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

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

Note 37 Compensation of key management personnel

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

Item	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
Szymon Słupik	14	81
Adam Gembala	47	80
Rafał Han	14	80
Total compensation paid	**75**	**241**

Item	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
Szymon Słupik	86	81
Adam Gembala	86	80
Rafał Han	86	80
Total compensation paid and due	**258**	**241**

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

Item	01.01.2020 –31.12.2020	01.01.2019 – 31.12.2019
Szymon Słupik	-	-
Adam Gembala	-	-
Rafał Han	164	164
Gross compensation paid	**164**	**164**

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

Total compensation of key personnel

Total compensation of key management personnel	01.01.2020 –31.12.2020	01.01.2019 – 31.12.2019
Szymon Słupik	86	81
Adam Gembala	86	80
Rafał Han	250	244
Total compensation	**422**	**405**

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

Note 38 Related party transactions

Transactions with parties related by equity with the Parent Company:

Parties related by equity with the Parent Company:

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

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

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

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

As at 31 December 2020, in connection with this loan, Silvair Sp. z o.o. posted a liability under a loan from Silvair, Inc. in the amount of USD 11,115 thousand, and as at 31 December 2019, it posted a liability in the total amount of USD 8,521 thousand. No loan repayments were made in 2020 and 2019.

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

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

As at 31 December 2020, in connection with the loan, Sway Sp. z o.o. showed a liability on account of the loan received from Silvair Sp. z o.o. in the amount of USD 340 thousand. As at 31 December 2019, the balance of liabilities amounted to USD 290 thousand. No loan repayments were made in 2020 and 2019.

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

The loans between the Group's companies and the financial costs and income in connection with such loans were excluded from the consolidated statements.

Trade settlements within the Group

As at 31 December 2020 and as at 31 December 2019, Sway Sp. z o.o. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities.

As at 31 December 2020 and as at 31 December 2019, Silvair, Inc. and Silvair Sp. z o.o. posted no mutual trade receivables or liabilities.

In 2020 and 2019, apart from loans, there were no other transactions between the Group's companies.

If transactions or mutual liabilities and receivables occurred in the reporting period between the companies, they would be excluded from these annual consolidated statements.

Entities having personal ties with the Group's companies

Transactions between entities with personal ties:

As stated in Note 3.7 of the Explanatory notes to the consolidated financial statements, as at 31 December 2020, the subsidiaries Silvair Sp. z o.o. and Sway Sp. z o.o. were parties to a lease agreement for a property in Kraków at ul. Jasnogórska, where the head offices of both companies are located.

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

In financial years 2020-2019, the Group leased space from Centrum Jasnogórska 44 Spółka z o.o. where the total amount of transactions was USD 107 thousand in 2020 and USD 268 thousand in 2019, respectively. The total cost in the period from 1 January to 31 December 2020 reached USD 87 thousand, and in 2019 – USD 218 thousand.

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

As at 31 December 2020 and as at the balance sheet date of 31 December 2019, the Group had no liabilities toward the above mentioned company under the lease agreement.

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

Rafał Han – Chief Executive Officer

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

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

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

Paweł Szymański – Non-executive Director

Marek Kapturkiewicz – Non-executive Director

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

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

During the reporting period, Morawski Family Trust – personally related to Christopher Morawski, a member of the Board of Directors of Silvair, Inc. – acquired bonds convertible to shares issued by Silvair, Inc. for the amount of USD 1.5 million

As at 31 December 2020 and 31 December 2019, Silvair Sp. z o.o. and Sway Sp. z o.o. posted no liabilities toward shareholders or the Board of Directors other than current liabilities on account of compensation and business travels.

Note 39 Minority interest

Movement in non-controlling interest	01.01.2020 – 31.12.2020	01.01.2019 – 31.12.2019
As at the beginning of the financial year	**80**	**119**
Contributions to capital of Sway	-	-
Result for the year attributable to non-controlling interest	-	-39
Reduction of the rights to shares for non-controlling interest	80	-
As at the end of the financial year	**-**	**80**

Information on the above mentioned changes are described in Note 14.3 Minority interest transactions.

Note 40 Subsidiaries with non-controlling interest

As at 31 December 2020, there were no subsidiaries in the Group with non-controlling interests.

As at 31 December 2019, non-controlling interest existed in the subsidiary SWAY Spółka z ograniczoną odpowiedzialnością with its registered office in Kraków at ul. Jasnogórska 44. The company is entered in the National Court Register kept by the District Court for Kraków-Śródmieście, 11th Commercial Division, under file no. KRS 0000464535. ASI Bridge Alfa Bitspiration Booster Sp. z o.o. Sp.k. with its registered office in Kraków, KRS 000068796 (ASI, Fund) became a shareholder in Sway Sp. z o.o. on the basis of the Notarial Deed entered in the Register of Deeds A under file number 1125/2018, prepared by Notary Monika Suchecka in the Notary's Office in Kraków at ul. Ogrodowa 1/1.

The annual consolidated financial statements for the period of 1 January to 31 December 2020 (including comparative data) were approved for publication by the Board of Directors on 16 April 2021.

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