



ASX: SLX OTCQX: SILXY

# Silex Systems Limited

ABN 69 003 372 067

## Appendix 4D

### ASX Half-year information – 31 December 2018

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2018 Annual Report and the full financial report for the year ending 30 June 2018.

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Silex Systems Limited  
half-year ended 31 December 2018  
(Previous corresponding period:  
half-year ended 31 December 2017)

Results for announcement to the market

	31 December 2018 \$	30 June 2018 \$	Movement \$	Movement %	
Cash and cash equivalents and Term deposits	28,567,369	31,853,982	(3,286,613)	10.3%	↓
	Half-year ended 31 December 2018 \$	Half-year ended 31 December 2017 \$	Movement \$	Movement %	
Revenue from ordinary activities	396,860	597,812	(200,952)	33.6%	↓
Earnings before interest, tax, depreciation, amortisation and impairment from continuing operations (EBITDA)	(2,177,845)	(5,974,428)	3,796,583	63.5%	↓
Net loss from ordinary activities after tax attributable to members	(1,806,147)	(5,460,321)	3,654,174	66.9%	↓
Net loss for the period attributable to members	(1,806,147)	(5,460,321)	3,654,174	66.9%	↓
<b>No dividends have been paid or proposed during the reporting period</b>					

#### Overview

Silex Systems' (Silex) primary activity is the development of the SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry. The development and commercialisation program has been undertaken jointly by Silex at its Lucas Heights facility and in Wilmington, North Carolina by GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive licensee of the SILEX technology since 2006.

On 6 February 2019, Silex announced the signing of a new Term Sheet outlining terms for the joint purchase of GEH's 76% interest in GLE by Silex and existing 24% GLE shareholder, Cameco. Subject to finalising a mutually satisfactory binding Purchase Agreement and obtaining US Government approvals, the proposed restructure of GLE under the new Term Sheet would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%. Providing the proposed restructure is successfully completed, this restructure will provide a viable path forward for the continued commercialisation of the SILEX technology in the US.

In March 2018, the global leader in the design and manufacture of advanced semiconductor wafer products, IQE Plc (AIM: IQE) elected to purchase Silex subsidiary Translucent Inc's semiconductor material technology known as 'Rare Earth Oxides' (cREO™). The cREO™ technology has numerous potential applications in the manufacture of next generation devices in the semiconductor, digital communications and power electronics industries. The election was made in accordance with the 2015 License and Assignment Agreement between Translucent and IQE and as a result, a payment of US\$5 million was received in September 2018 (in IQE stock). In addition, a perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology, with minimum annual royalties due to commence being paid in FY2020.

The Company's balance sheet as at 31 December 2018 remains in a strong position with net assets of \$40.1 million, including \$28.6 million in cash and term deposits, and IQE shares of \$11.0 million.

This half-year report should be read together with the Operational Update released in conjunction with this report and recent ASX announcements.

**Explanation of the net loss from ordinary activities after tax attributable to members**

The net loss from ordinary activities of \$1.8m improved by \$3.7m compared to the previous corresponding period. The improvement in the net loss was largely due to a reduction in expenses by \$3.9m. The reduction in expenses was mainly due to a \$2.8m decrease in Development expenditure resulting from Silex's decision in June 2018 to terminate the original Term Sheet with GEH, at which time Silex's funding obligations for GLE's operations ceased. Other savings included a \$0.6m reduction in Consultants and professional fees as a result of the termination of the original Term Sheet and a reduction in Research and development materials and Employee benefits expense as the Company implemented steps to reduce its cash burn.

**Cash and cash equivalents & Term Deposits**

Our cash and term deposits balance as at 31 December 2018 was \$28.6m, a net decrease of \$3.3m during the half-year primarily due to our ongoing commitment to the SILEX technology commercialisation program including the payment owed to GEH under the terminated Term Sheet. During the 6 months to 31 December 2018, Silex reimbursed GEH \$0.6m for costs incurred prior to the termination of the original Term Sheet in June 2018. Silex reimbursed GEH \$3.1m in the half-year ended 31 December 2017.

Net cash outflows from operating activities for the half-year to 31 December 2018 were \$3.3m compared to \$5.6m for the half-year ended 31 December 2017. The decreased outflows were mainly due to a \$2.7m reduction in payments to suppliers and employees in the current half-year as a result of the termination of the Term Sheet with GEH. Interest received also reduced from \$0.8m to \$0.5m as a result of lower average cash/term deposit holdings in the current period and a reduction in the number of term deposits maturing in the current period.

**Revenue from ordinary activities**

There was a reduction of \$0.2m in revenue from ordinary activities during the half-year. Interest income decreased from \$0.5m in the previous corresponding period to \$0.4m in the current period as a result of lower average cash/term deposit holdings. The previous corresponding period also included Recoverable project costs from IQE of \$0.1m (\$nil in the current period).

**Earnings before interest, tax, depreciation, amortisation and impairment from continuing operations (EBITDA)**

EBITDA from continuing operations for the half-year ended 31 December 2018 was a loss of \$2.2m. This comprises a loss from continuing operations of \$1.8m adjusted for net interest income of \$0.4m and depreciation and amortisation of \$0.03m.

**Explanation of dividends**

No dividends have been paid or proposed during the reporting period.

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018, the full financial report for the year ending 30 June 2018 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Silex Systems Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Building 64, Lucas Heights Science and Technology Centre, New Illawarra Road, Lucas Heights, NSW 2234.

## Silex Systems Limited Directors' report

Your directors present their report on the consolidated entity consisting of Silex Systems Limited (Silex or the Company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2018.

### 1. Directors

The following persons were directors of Silex Systems Limited during the whole of the half-year and up to the date of this report:

Dr M P Goldsworthy – CEO / Managing Director  
Mr C D Wilks

Dr L M McIntyre and Mr R A R Lee were directors from the beginning of the half-year until their respective resignations on 31 December 2018.

Mr C A Roy and Ms M K Holzberger were appointed as directors on 1 January 2019 and continue in office at the date of this report.

### 2. Dividend

No dividend payment has been recommended or declared by the Board.

### 3. Review of operations and activities

The Consolidated income statement on page 8 of this report sets out the main revenue and expense items for the half-year ended 31 December 2018 with comparatives for the half-year ended 31 December 2017. A summary is shown below:

	6 months ended 31 December 2018	6 months ended 31 December 2017
	\$	\$
Revenue from continuing operations	<u>396,860</u>	<u>597,812</u>
(Loss) before tax	(1,806,147)	(5,460,321)
Income tax expense	-	-
Net (loss) from continuing operations	<u>(1,806,147)</u>	<u>(5,460,321)</u>
Net (loss) for the half-year	<u>(1,806,147)</u>	<u>(5,460,321)</u>
(Loss) is attributable to:		
Owners of Silex Systems Limited	<u>(1,806,147)</u>	<u>(5,460,321)</u>

Overall, the Company incurred a loss attributable to owners of Silex Systems Limited for the half-year ended 31 December 2018 of \$1.8m (loss of \$5.5m for the previous corresponding period).

The result for the half-year period was impacted by the following:

- Revenue and Other Income from continuing operations reduced by \$0.2m. Interest income decreased by \$0.1m as average cash/term deposit balances reduced. Recoverable project costs from IQE reduced from \$0.1m to \$nil in the current period.
- Expenses from continuing operations decreased by \$3.9m. This was mainly due to a \$2.8m reduction in Development expenditure resulting from Silex's decision in June 2018 to withdraw from the original Term Sheet with GEH. Silex's funding obligations for GLE's operations under that Term Sheet ceased in June 2018. Consultants and professional fees also reduced by \$0.6m, there was a \$0.2m decrease in Employee benefits expense, a \$0.2m decrease in Research and development materials and a \$0.1m decrease in net foreign exchange losses during the half-year ended 31 December 2018.

The total cash balance (including term deposits) as at 31 December 2018 was \$28.6m. Net cash outflows from operating activities for the current period were \$3.3m compared to \$5.6m in the prior corresponding period. The decreased outflows were mainly due to a \$2.7m decrease in payments to suppliers and employees in the current half-year. Partly offsetting this, Interest received reduced from \$0.8m to \$0.5m as a result of lower average cash/term deposit holdings in the current period and a reduction in the number of term deposits maturing in the current period.

The Net assets of the Company were also unfavourably impacted during the current period by a decrease in the IQE Plc share price.

Further information on the operations and position of the Company is included in the Operational Update that is released to the ASX on the same day as this Appendix 4D, and in the 2018 Annual Report.

#### 4. Subsequent events

Silex announced on 6 February 2019 the signing of a new Term Sheet outlining terms for the joint purchase of GEH's 76% interest in GLE by Silex and existing 24% GLE shareholder, Cameco. Subject to finalising a mutually satisfactory binding Purchase Agreement and obtaining US Government approvals, the proposed restructure of GLE under the new Term Sheet would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%.

Providing a full binding Purchase Agreement is signed and US Government approvals received for the transaction, the proposed restructure will provide a viable path for the continued commercialisation of the SILEX technology in the US.

#### 5. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of the directors.



Dr M P Goldsworthy  
CEO/MD



Mr C A Roy  
Chair

Sydney, 25 February 2019



## *Auditor's Independence Declaration*

As lead auditor for the review of Silex Systems Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Silex Systems Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'David Ronald'.

David Ronald  
Partner  
PricewaterhouseCoopers

Sydney  
25 February 2019

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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Silex Systems Limited  
Consolidated income statement  
for the half-year ended 31 December 2018

	6 months ended 31 December 2018 \$	6 months ended 31 December 2017 \$
Interest revenue	396,860	533,904
Other revenue	-	63,908
<b>Revenue from continuing operations</b>	<b>396,860</b>	<b>597,812</b>
Other income	536,212	535,878
Research and development materials	(49,842)	(213,310)
Development expenditure	(16,836)	(2,820,109)
Finance costs	(1)	(3)
Depreciation and amortisation expense	(25,161)	(19,794)
Employee benefits expense	(1,864,968)	(2,035,549)
Consultants and professional fees	(294,854)	(896,784)
Printing, postage, freight, stationery and communications	(37,595)	(52,996)
Rent, utilities and property outgoings	(226,264)	(210,004)
Net foreign exchange losses	-	(96,706)
Other expenses from ordinary activities	(223,698)	(248,756)
<b>(Loss) before income tax expense</b>	<b>(1,806,147)</b>	<b>(5,460,321)</b>
Income tax expense	-	-
<b>Net (loss) from continuing operations</b>	<b>(1,806,147)</b>	<b>(5,460,321)</b>
<b>Net (loss) for the half-year</b>	<b>(1,806,147)</b>	<b>(5,460,321)</b>
(Loss) is attributable to:		
Owners of Silex Systems Limited	(1,806,147)	(5,460,321)
	Cents	Cents
<b>Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company</b>		
Basic earnings per share	(1.1)	(3.2)
Diluted earnings per share	(1.1)	(3.2)
<b>Earnings per share for (loss) attributable to the ordinary equity holders of the company</b>		
Basic earnings per share	(1.1)	(3.2)
Diluted earnings per share	(1.1)	(3.2)

*The above consolidated income statement should be read in conjunction with the accompanying notes.*

Silex Systems Limited  
Consolidated statement of comprehensive income  
for the half-year ended 31 December 2018

	<b>6 months ended 31 December 2018</b>	<b>6 months ended 31 December 2017</b>
	\$	\$
<b>Net (loss) for the half-year</b>	<b>(1,806,147)</b>	<b>(5,460,321)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	-	5,002,600
Exchange differences on translation of foreign operations	<b>794,011</b>	<b>(117,465)</b>
<i>Items that will not be reclassified to profit or loss:</i>		
Changes in the fair value of equity investments at fair value through other comprehensive income	<b>(5,965,040)</b>	-
<b>Other comprehensive income for the half-year, net of tax</b>	<b>(5,171,029)</b>	<b>4,885,135</b>
<b>Total comprehensive income for the half-year</b>	<b>(6,977,176)</b>	<b>(575,186)</b>
Attributable to:		
Owners of Silex Systems Limited	<b>(6,977,176)</b>	<b>(575,186)</b>
<b>Total comprehensive income for the half-year</b>	<b>(6,977,176)</b>	<b>(575,186)</b>
Total comprehensive income for the period attributable to owners of Silex Systems Limited arises from:		
Continuing operations	<b>(6,977,176)</b>	<b>(575,186)</b>

*The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.*

Silex Systems Limited  
Consolidated balance sheet  
as at 31 December 2018

	Note	31 December 2018	30 June 2018
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,815,532	2,002,145
Held to maturity investments - term deposits	11	-	29,851,837
Other financial assets at amortised cost – term deposits		26,751,837	-
Trade and other receivables	3	1,921,536	8,452,352
Other current assets		97,252	-
Available-for-sale financial assets	4(b)	-	9,362,123
Financial assets at fair value through other comprehensive income	4(a)	10,951,862	-
<b>Total current assets</b>		<b>41,538,019</b>	<b>49,668,457</b>
<b>Non-current assets</b>			
Property, plant and equipment		121,934	119,178
<b>Total non-current assets</b>		<b>121,934</b>	<b>119,178</b>
<b>Total assets</b>		<b>41,659,953</b>	<b>49,787,635</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5	777,198	1,892,751
Provisions		692,082	695,319
<b>Total current liabilities</b>		<b>1,469,280</b>	<b>2,588,070</b>
<b>Non-current liabilities</b>			
Provisions		86,785	118,501
<b>Total non-current liabilities</b>		<b>86,785</b>	<b>118,501</b>
<b>Total liabilities</b>		<b>1,556,065</b>	<b>2,706,571</b>
<b>Net assets</b>		<b>40,103,888</b>	<b>47,081,064</b>
<b>EQUITY</b>			
Contributed equity	6	231,750,374	231,750,374
Reserves		12,850,234	18,021,263
Accumulated losses		(204,496,720)	(202,690,573)
<b>Total equity</b>		<b>40,103,888</b>	<b>47,081,064</b>

*The above consolidated balance sheet should be read in conjunction with the accompanying notes.*

Silex Systems Limited  
Consolidated statement of changes in equity  
for the half-year ended 31 December 2018

	Attributable to owners of Silex Systems Limited			
	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
<b>Balance at 30 June 2017</b>	<b>231,750,374</b>	<b>15,653,086</b>	<b>(198,111,192)</b>	<b>49,292,268</b>
Net (loss) for the half-year	-	-	(5,460,321)	(5,460,321)
Other comprehensive income	-	4,885,135	-	4,885,135
<b>Total comprehensive income for the half-year</b>	-	<b>4,885,135</b>	<b>(5,460,321)</b>	<b>(575,186)</b>
<b>Transactions with owners in their capacity as owners</b>				
Transactions with non-controlling interests	-	(15,057)	-	(15,057)
	-	(15,057)	-	(15,057)
<b>Balance at 31 December 2017</b>	<b>231,750,374</b>	<b>20,523,164</b>	<b>(203,571,513)</b>	<b>48,702,025</b>
<b>Balance at 30 June 2018</b>	<b>231,750,374</b>	<b>18,021,263</b>	<b>(202,690,573)</b>	<b>47,081,064</b>
Net (loss) for the half-year	-	-	(1,806,147)	(1,806,147)
Other comprehensive income	-	(5,171,029)	-	(5,171,029)
<b>Total comprehensive income for the half-year</b>	-	<b>(5,171,029)</b>	<b>(1,806,147)</b>	<b>(6,977,176)</b>
<b>Balance at 31 December 2018</b>	<b>231,750,374</b>	<b>12,850,234</b>	<b>(204,496,720)</b>	<b>40,103,888</b>

*The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

Silex Systems Limited  
Consolidated cash flow statement  
for the half-year ended 31 December 2018

	6 months ended 31 December 2018 \$	6 months ended 31 December 2017 \$
<b>Cash flows from operating activities</b>		
Receipts from customers and government grants (inclusive of GST)	9,316	38,666
Payments to suppliers and employees (inclusive of GST)	(3,772,148)	(6,445,451)
Interest received	497,674	801,288
Interest paid	(1)	(3)
<b>Net cash (outflows) from operating activities</b>	<b>(3,265,159)</b>	<b>(5,605,500)</b>
 <b>Cash flows from investing activities</b>		
Proceeds from maturity of other financial assets at amortised cost - term deposits (2017: held to maturity investments – term deposits)	3,100,000	6,500,000
Payment for additional interest in subsidiary	-	(15,057)
Payments for property, plant and equipment	(26,875)	(45,349)
<b>Net cash inflows from investing activities</b>	<b>3,073,125</b>	<b>6,439,594</b>
 <b>Cash flows from financing activities</b>		
<b>Net cash (outflows) from financing activities</b>	-	-
 <b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(192,034)</b>	<b>834,094</b>
Cash and cash equivalents at the beginning of the half-year	2,002,145	1,876,319
Effects of exchange rate changes on cash	5,421	(1,710)
<b>Cash and cash equivalents at end of half-year *</b>	<b>1,815,532</b>	<b>2,708,703</b>
 * Term deposits excluded from Cash and cash equivalents	<b>26,751,837</b>	<b>34,301,837</b>

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2018

**Note 1 Significant changes in the current accounting period**

Following the Company's announcement on 12 June 2018 of its decision to withdraw from the GLE restructure under the original Term Sheet with GEH and challenging market conditions, a number of operational decisions were made in the current accounting period to rationalise activities and reduce operational cash burn from FY2019 onwards. Actions taken included a headcount reduction of more than 40% at our Lucas Heights facility in August 2018 and the relocation of our small corporate office to the Lucas Heights facility in late October.

**Note 2 Segment information**

**(a) Description of segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors.

Management has determined that there are two operating segments based on the reports reviewed by Management and the Board of Directors to make strategic decisions. These segments are Silex Systems and Translucent.

**(b) Segment information provided to the Board of Directors**

Half-year ended 31 December 2018	Silex Systems \$	Translucent \$	Total \$
Total segment revenue	419,676	489,115	908,791
Inter-segment revenue	(22,816)	(489,115)	(511,931)
<b>Revenue from external customers</b>	<b>396,860</b>	<b>-</b>	<b>396,860</b>
Interest revenue	396,860	-	396,860
<b>Segment result</b>	<b>(1,799,250)</b>	<b>(6,897)</b>	<b>(1,806,147)</b>
Half-year ended 31 December 2017	Silex Systems \$	Translucent \$	Total \$
Total segment revenue	575,904	494,182	1,070,086
Inter-segment revenue	(42,000)	(430,274)	(472,274)
<b>Revenue from external customers</b>	<b>533,904</b>	<b>63,908</b>	<b>597,812</b>
Interest revenue	533,904	-	533,904
Recoverable project costs from IOE	-	63,908	63,908
	533,904	63,908	597,812
<b>Segment result</b>	<b>(5,436,686)</b>	<b>(23,635)</b>	<b>(5,460,321)</b>

The Board of Directors assesses the performance of the operating segments based on a result that excludes exchange gains and losses on intercompany loans which eliminate on consolidation. The segment result reconciles to the Net (loss) from continuing operations.

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2018 (continued)

	Silex Systems \$	Translucent \$	Total \$
<b>Total segment assets</b>			
31 December 2018	30,654,582	11,005,371	41,659,953
30 June 2018	33,552,475	16,235,160	49,787,635

Assets which eliminate on consolidation, such as investments in controlled entities and intercompany receivables are excluded from segment assets.

	Silex Systems \$	Translucent \$	Total \$
<b>Total segment liabilities</b>			
31 December 2018	1,545,141	10,924	1,556,065
30 June 2018	2,351,235	355,336	2,706,571

	31 December 2018 \$	30 June 2018 \$
<b>Note 3 Trade and other receivables</b>		
Trade debtors	-	9,771
Receivable from sale of Translucent's cREO™ technology	-	6,754,019
Other receivables	7,619	16,611
Derivative financial instruments - forward exchange contracts	-	31,251
Accrued income	1,913,917	1,487,852
Prepayments	-	152,848
	<b>1,921,536</b>	<b>8,452,352</b>

The receivable from the sale of Translucent's cREO™ technology was settled during the current period by the issue of shares in IQE Plc.

	31 December 2018 \$	30 June 2018 \$
<b>Note 4 Financial assets at fair value through other comprehensive income / Available-for-sale financial assets</b>		
<b>(a) Financial assets at fair value through other comprehensive income</b>		
Listed securities		
Equity securities	10,951,862	-
<b>(b) Available-for-sale financial assets</b>		
Listed securities		
Equity securities	-	9,362,123

The IQE Plc shares were reclassified from Available-for-sale financial assets to Financial assets at fair value through other comprehensive income under AASB 9 *Financial Instruments*. Refer to note 11 for further information. During the current half-year the Company received additional IQE shares from the sale of the cREO™ technology. The value of the shares at 31 December 2018 was adversely affected by a decline in the IQE share price during the half-year.

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2018 (continued)

	31 December 2018 \$	30 June 2018 \$
<b>Note 5 Trade and other payables</b>		
Trade creditors	465,495	1,462,923
Other payables	311,703	429,828
	777,198	1,892,751

	31/12/2018 Shares	30/06/2018 Shares	31/12/2018 \$	30/06/2018 \$
<b>Note 6 Contributed equity</b>				
<b>(a) Share capital</b>				
Ordinary shares, fully paid	170,467,339	170,467,339	231,750,374	231,750,374

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	\$
30/06/2018	Opening balance	170,467,339	231,750,374
31/12/2018	Closing balance	170,467,339	231,750,374

	31 December 2018 \$	30 June 2018 \$	31 December 2017 \$
<b>Note 7 Net tangible asset backing</b>			
Net tangible asset backing per ordinary security	23.5 cents	27.6 cents	28.6 cents

**Note 8 Events occurring after reporting date**

As announced on 6 February 2019, Silex, Cameco and GE-Hitachi Nuclear Energy (GEH) executed a new Term Sheet outlining key terms for the purchase of GEH's 76% interest in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The parties to the new Term Sheet are Silex, GENE Holdings (GENE), GE-Hitachi Nuclear Energy Americas LLC (GEHA) and General Electric Company (GE) (together GEH) and Cameco Corporation. The new Term Sheet, contemplates GEH selling all of its 76% interest in GLE (i.e. selling 51% of its GLE interest to Silex and its remaining 25% interest to Cameco). The transaction is subject to the satisfactory finalisation of a binding Purchase Agreement and obtaining US Government approvals.

While the new Term Sheet is primarily Non-Binding, there are certain binding obligations including a binding financial obligation to reimburse GEH an amount of US\$153,000 per month until completion of the transaction or until termination of negotiations. This monthly funding obligation is retrospective to 1 September 2018 and therefore upon execution of the new Term Sheet in February 2019, Silex was obligated to reimburse GEH US\$918,000 for the period 1 September 2018 to 28 February 2019.

In the event Silex terminates the Term Sheet (without cause), a termination fee of US\$500,000 will be payable to GEH. In addition, in the event a binding Purchase Agreement is signed, then Silex is required to make an additional funding payment to GEH of US\$1,125,000 in lieu of a holdback to the reimbursements paid to GEH under the original Term Sheet. At the current point in time, the amount and timing of any outflow of funds is uncertain and subject to Silex either terminating the new Term Sheet or the signing a binding Purchase Agreement. Therefore, these two amounts are considered to be contingent liabilities of the Company.

Providing a full binding Purchase Agreement is signed and US Government approvals received for the transaction, the proposed restructure will provide a viable path for the continued commercialisation of the SILEX technology in the US.

Between 31 December 2018 and the date of this report, the IQE Plc share price (LON: IQE) has increased. Combined with movements in exchange rates, the value of the shares (disclosed as Financial assets at fair value through other comprehensive income) has increased by approximately \$2,870,000 since 31 December 2018. Gains or losses arising from changes in the fair value of shares classified as Financial assets at fair value through other comprehensive income are recognised in other comprehensive income. The financial effects of the movements in fair value since 31 December 2018 will be recognised in the financial statements for the year ended 30 June 2019.

The consolidated entity is not aware of any other matters or circumstances which are not otherwise dealt with in the financial statements that have significantly, or may significantly, affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years other than those referred to in the Operational Update released to the ASX at the same time as this document.

#### **Note 9 Fair value measurement**

##### **Derivatives**

Foreign exchange contracts are used to manage foreign exchange risk. The Company may enter into forward exchange contracts which are economic hedges for foreign currencies to be traded at a future date but do not satisfy the requirements for hedge accounting. These contracts are valued at fair value by comparing the contracted foreign exchange rate to the current market foreign exchange rate for a contract with the same remaining period to maturity. Any changes in fair values are immediately taken to the income statement.

The Company's policy is to hedge a proportion of its anticipated USD cash flows. The Board monitors the Company's hedging strategy on a continuing basis. At 31 December 2018, the Company held US\$nil forward exchange contracts (30 June 2018: US\$675,000). The fair value of derivative contracts outstanding at 31 December 2018 totals \$nil (30 June 2018: \$31,251). The \$31,251 was recorded in Current assets – trade and other receivables at 30 June 2018.

#### **Note 10 Basis of preparation of the half-year financial report**

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018, the full financial report for the year ended 30 June 2018 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except for the adoption of new and amended standards as set out below.

##### **New and amended standards adopted by the Company**

A number of new or amended standards became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the following standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The adoption of these new standards did not require retrospective adjustments to comparatives.

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2018 (continued)

**Impact of standards issued but not yet applied by the Company**

**AASB 16 Leases**

The new standard will result in almost all leases being recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (being the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases. The new standard is mandatory for financial years commencing on or after 1 January 2019.

The standard will affect primarily the accounting for the Company's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of \$360,197 over the next 2 years. The Company has reviewed its leases and determined that these commitments will result in the recognition of an asset and a lease liability for future payments upon adoption of the new standard.

Upon adoption of the new standard on 1 July 2019, the lease expense, currently shown in Rent, utilities and property outgoings, and Other expenses from continuing operations would be disclosed as Depreciation and amortization expense, and as Finance costs in the income statement. An asset (reflecting the right to use the leased item) and a corresponding liability will be included in the Company's balance sheet.

There are no other standards that have been issued that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

**Note 11 Changes in accounting policies**

This note explains the impact of the adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on the Company's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

**(a) Impact on the financial statements**

AASB 9 and AASB 15 were adopted without restating comparative information. The table below shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. All of the changes related to Current assets. Further details of the adjustments are provided below:

	30 June 2018 as originally presented \$	Impact of AASB 9 \$	Impact of AASB 15 \$	1 July 2018 Restated \$
<b>Balance sheet (extract)</b>				
<b>Current assets</b>				
Held to maturity investments - term deposits	29,851,837	(29,851,837)	-	-
Other financial assets at amortised costs - term deposits	-	29,851,837	-	29,851,837
Trade and other receivables	8,452,352	-	(152,848)	8,299,504
Other current assets	-	-	152,848	152,848
Available-for-sale financial assets	9,362,123	(9,362,123)	-	-
Financial assets at fair value through other comprehensive income	-	9,362,123	-	9,362,123

**(b) AASB 9 Financial instruments – Impact of adoption**

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 9 paragraphs 7.2.15 and 7.2.26, comparative figures have not been restated.

*Reclassification from Held to maturity investments to Other financial assets at amortised cost*

Term deposits that would previously have been classified as Held to maturity investments are now classified as Other financial assets at amortised cost. The Company intends to hold the term deposits to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

*Reclassification from Available-for-sale financial assets to Financial assets through other comprehensive income*

The Company elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for sale. As a result, assets with a fair value of \$9,362,123 were reclassified from Available-for-sale financial assets to Financial assets at fair value through other comprehensive income on 1 July 2018. Fair value gains of \$7,233,124 were reclassified from Revaluation – Available-for-sale financial assets reserve to the Revaluation - Fair value through other comprehensive income reserve on 1 July 2018.

*Impairment of financial assets*

The Company has applied the new expected credit loss model to its financial assets however, no additional impairment was required as follows:

- While Cash and cash equivalents are subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial;
- All of the Company's term deposits (disclosed under AASB 9 as Other financial assets at amortised cost) are considered to have low credit risk given the credit ratings of the bank where the deposits are held. The Company has reviewed the credit ratings and corporate default rates of the various banks by credit rating agencies. Applying the expected credit loss model, the identified impairment loss was immaterial;
- The receivable from the sale of Translucent's cREO™ technology was backed by an equal amount held in an escrow account with a bank. After reviewing credit rating and corporate default rates in reports from credit rating agencies, the identified impairment loss was immaterial. The receivable was subsequently settled and payment received in full;
- Impairment losses for accrued income were also immaterial after reviewing the credit ratings of the various banks (interest) and the Federal Government (Research and development tax incentive); and
- The Company applied the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Using this approach, impairment losses were immaterial.

**(c) AASB 9 Financial Instruments - Accounting policies applied from 1 July 2018**

From 1 July 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value, either through Other comprehensive income (OCI), or through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial asset and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2018 (continued)

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At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss are expensed in profit or loss.

The Company subsequently measures all equity investments at fair value. Where the Company's Management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

If applicable, the Company reclassifies debt investments when and only when its business model for managing those assets changes.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

From 1 July 2018, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

**(d) AASB 15 Revenue from Contracts with Customers – Impact of adoption**

The Company has adopted AASB 15 from 1 July 2018.

The Company has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of AASB 15 (and AASB 9). Prepayments were previously presented together with trade receivables however, they are now presented as Other current assets in the balance sheet to reflect their different nature.

**(e) AASB 15 Revenue from Contracts with Customers – Accounting policies applied from 1 July 2018**

The Company has adopted AASB 15 from 1 July 2018 which resulted in changes in accounting policy with respect to potential Royalty income from IQE Plc. Under the License and Assignment Agreement between Translucent and IQE, a perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. Minimum annual royalties are due to commence being paid in FY2020. Under AASB 15, the royalties would be treated as variable consideration for the sale of the technology. Revenue is required to be estimated for the royalties if it is highly probable that a significant reversal would not subsequently occur.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 8 to 19 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that Silex Systems Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Dr M P Goldsworthy  
CEO/MD



Mr C A Roy  
Chair

Sydney  
25 February 2019

**Forward Looking Statements and Business Risks:**

*Silex Systems Limited (Silex) is a research and development company whose primary asset is the SILEX laser uranium enrichment technology, originally developed at the Company's technology facility in Sydney, Australia. The SILEX technology was licensed exclusively in 2006 to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA. GLE has been undergoing a restructure for a number of years after GE-Hitachi disclosed it was seeking to exit the venture. In view of the continuing uncertainty surrounding the GLE restructure and the continuing depressed nuclear fuel market conditions, plans for commercial deployment of the SILEX technology have been significantly delayed, and remain at risk. The future of the SILEX technology is therefore highly uncertain and any plans for commercial deployment are speculative.*

*Silex also has an interest in a unique semiconductor technology known as 'cREO™' through its ownership of subsidiary Translucent Inc. The cREO™ technology developed by Translucent has been acquired by IQE Plc based in the UK. IQE is progressing the cREO™ technology towards commercial deployment in various advanced semiconductor products. The outcome of IQE's commercialisation program is also highly uncertain and remains subject to various technology and market risks.*

*The commercial potential of these two technologies is currently unknown. Accordingly, the statements in this announcement regarding the future of the SILEX technology, the cREO™ technology and any associated commercial prospects are forward looking and actual results could be materially different from those expressed or implied by such forward looking statements as a result of various risk factors.*

*Risk factors that could affect future results and commercial prospects include, but are not limited to: the outcome of the GLE restructure; the results of the SILEX uranium enrichment engineering development program; the market demand for natural uranium and enriched uranium; the potential development of competing technologies; the potential for third party claims against the Company's ownership of Intellectual Property; the potential impact of prevailing laws or government regulations or policies in the USA, Australia or elsewhere; results from IQE's commercialisation program and the market demand for cREO™ products; and the outcomes of various strategies undertaken by the Company.*



## Independent auditor's review report to the members of Silex Systems Limited

### *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Silex Systems Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Silex Systems Limited. The Group comprises the Company and the entities it controlled during that half-year.

### *Directors' responsibility for the half-year financial report*

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Silex Systems Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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## Independent auditor's review report to the members of Silex Systems Limited (continued)

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Silex Systems Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*David Ronald*

David Ronald  
Partner

Sydney  
25 February 2019