



ASX: SLX OTCQX: SILXY

# Silex Systems Limited

ABN 69 003 372 067

## Appendix 4D

### ASX Half-year information – 31 December 2019

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2019 Annual Report and the full financial report for the year ending 30 June 2019.

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Silex Systems Limited  
half-year ended 31 December 2019  
(Previous corresponding period:  
half-year ended 31 December 2018)

Results for announcement to the market

	31 December 2019 \$	30 June 2019 \$	Movement \$	Movement %	
<b>Cash and cash equivalents and Term deposits</b>	<b>22,384,560</b>	24,853,590	(2,469,030)	9.9%	↓
	<b>Half-year ended 31 December 2019 \$</b>	Half-year ended 31 December 2018 \$	Movement \$	Movement %	
<b>Revenue from ordinary activities</b>	<b>262,573</b>	396,860	(134,287)	33.8%	↓
<b>Earnings before interest, tax, depreciation, amortisation and impairment from continuing operations (EBITDA)</b>	<b>(5,257,725)</b>	(2,177,845)	(3,079,880)	141.4%	↑
<b>Net loss from ordinary activities after tax attributable to members</b>	<b>(5,172,435)</b>	(1,806,147)	(3,366,288)	186.4%	↑
<b>Net loss for the period attributable to members</b>	<b>(5,172,435)</b>	(1,806,147)	(3,366,288)	186.4%	↑
<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. A development and commercialisation program has been undertaken jointly since 2006 by Silex and GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. Program activities continue to be conducted at Silex's Lucas Heights facility and GLE's Test Loop facility in Wilmington, North Carolina.

On 16 December 2019, Silex announced it had executed a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco Corporation (Cameco) and GE-Hitachi Nuclear Energy (GEH) for the joint purchase of GEH's 76% interest in GLE. Closing of the Agreement, which remains subject to US government approvals and other factors, would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%. The MIPA includes a number of key financial terms and provisions including the Purchasers' obligation to reimburse GEH for its share of funding for GLE's Wilmington activities. From 1 January 2020, Silex is required to reimburse GEH US\$170k per month. In addition, Silex is required to pay GEH US\$1.125m being for the reimbursement of costs held over from a Term Sheet agreed between the parties in 2016. This amount was paid on 6 February 2020.

In December 2019, Silex launched a new project for the production of high-purity 'Zero-Spin Silicon' (ZS-Si) for the fabrication of next-generation processor chips which will power silicon-based quantum computers. The launch of the project was marked by the signing of a product Offtake Agreement between Silex and Silicon Quantum Computing Pty Ltd (SQC), which includes SQC making three annual payments of \$300k as an offset against future purchases of ZS-Si produced by Silex. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring through a private placement for \$900k, 2.3 million fully paid ordinary shares in the capital of Silex bringing the total value of the transaction to \$1.8m. The placement was completed in January 2020.

In accordance with the sale of Silex subsidiary Translucent Inc's semiconductor material technology known as Rare Earth Oxides' (cREO™) to IQE Plc (IQE) in early 2018, minimum annual royalties are due to commence being paid for the year ended 31 December 2019. The initial minimum annual royalty of US\$400k is due for payment in early CY2020.

## Silex Systems Limited

### Results for announcement to the market (continued)

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As at 31 December 2019, the Company's balance sheet had total assets of \$32.9m and net assets of \$29.3m which included \$22.4m in cash and term deposits, and IQE shares of \$8.6m.

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 increased by \$3.4m compared to the previous corresponding period. This was mainly due to a \$3.0m increase in Development expenditure, reflecting Silex's obligation to continue to reimburse GEH for the funding of GLE's Wilmington Test Loop activities. The Development expenditure in the current period included 6 months of funding commitments and a holdback amount of US\$1.125m for the reimbursement of costs held over from the previous Term Sheet. Other factors contributing to the increased loss for the period, were a \$0.2m increase in Consultants and professional fees mainly as a result of the GLE restructure and a \$0.1m reduction in interest revenue as a result of lower average cash holdings and interest rates.

#### **Cash and cash equivalents & Term Deposits**

Our cash and term deposits balance as at 31 December 2019 was \$22.4m, a net decrease of \$2.5m during the half-year primarily due to our ongoing commitment to the SILEX technology commercialisation program including payments to GEH in accordance with the Term Sheet for the proposed purchase of GEH's 51% interest in GLE. Receipts from Customers and government grants increased by \$1.2m compared to the previous period and included \$0.9m for the Research and Development tax Incentive and \$0.3m from SQC in accordance with the Offtake Agreement signed in December 2019 (both nil in the previous corresponding period). During the 6 months to 31 December 2019, Silex reimbursed GEH \$1.1m for Development expenditure incurred under the Term Sheet (\$0.6m for the 6 months ended 31 December 2018).

Net cash outflows from operating activities for the half-year to 31 December 2019 were \$2.2m compared to \$3.3m for the half-year ended 31 December 2018. The decreased outflows were mainly due to the increased receipts as mentioned above.

#### **Revenue from ordinary activities**

There was a reduction of \$0.1m in revenue from ordinary activities during the half-year. Interest income decreased from \$0.4m in the previous corresponding period to \$0.3m in the current period as a result of lower average cash/term deposit holdings and lower interest rates.

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

EBITDA from continuing operations for the half-year ended 31 December 2019 was a loss of \$5.3m. This comprises a loss from continuing operations of \$5.2m adjusted for net interest income of \$0.3m and depreciation and amortisation of \$0.2m.

#### **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 2019, the full financial report for the year ending 30 June 2019 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.

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 2019.

**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:

Mr C A Roy - Chair  
Dr M P Goldsworthy – CEO / Managing Director  
Ms M K Holzberger  
Mr C D Wilks

**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 2019 with comparatives for the half-year ended 31 December 2018. A summary is shown below:

	<b>6 months ended 31 December 2019</b>	6 months ended 31 December 2018
	<b>\$</b>	<b>\$</b>
Revenue from continuing operations	<b>262,573</b>	396,860
(Loss) before tax	<b>(5,172,435)</b>	(1,806,147)
Income tax expense	-	-
Net (loss) from continuing operations	<b>(5,172,435)</b>	(1,806,147)
Net (loss) for the half-year	<b>(5,172,435)</b>	(1,806,147)
(Loss) is attributable to:		
Owners of Silex Systems Limited	<b>(5,172,435)</b>	(1,806,147)

Overall, the Company incurred a loss attributable to owners of Silex Systems Limited for the half-year ended 31 December 2019 of \$5.2m (loss of \$1.8m for the previous corresponding period). The result for the half-year period was impacted by an increase in expenses of \$3.1m. This was mainly due to a \$3.0m increase in Development expenditure. The Development expenditure in the current period included 6 months of funding commitments to reimburse GEH for the funding of GLE's Wilmington Test Loop activities and a holdback of US\$1.125m payable as a result of the execution of the binding purchase agreement in December 2019 between Silex, Cameco Corporation and GEH. Other factors attributed to the increased loss were a \$0.2m increase in Consultants and professional fees mainly as a result of the GLE restructure and a reduction in Revenue (Interest revenue) of \$0.1m as a result of lower average cash/term deposit balances and lower interest rates.

The total cash balance (including term deposits) as at 31 December 2019 was \$22.4m. Net cash outflows from operating activities for the current period were \$2.2m compared to \$3.3m in the prior corresponding period. Receipts from Customers and government grants increased \$1.2m compared to the previous period and included \$0.9m for the Research and Development tax Incentive and \$0.3m from SQC in accordance with the Offtake Agreement signed in December 2019 (both nil in the previous corresponding period). During the 6 months ended 31 December 2019, Silex reimbursed GEH \$1.1m for Development expenditure incurred under the Term Sheet (\$0.6m for the 6 months ended 31 December 2018).

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 2019 Annual Report.

#### 4. Subsequent events

In accordance with the Subscription Agreement executed by Silex and SQC in December 2019 and the launch of the Zero-Spin Silicon (ZS-Si) project (refer Note 1), Silex received \$900,000 from SQC in January 2020 for the private placement of 2.3 million fully paid ordinary shares in Silex. The placement was completed with the issue of 2.3 million shares on 7 January 2020.

Together with SQC and UNSW Sydney (UNSW), the Company announced on 10 February 2020 the award of a collaborative funding grant of \$3m from the Commonwealth Cooperative Research Centres Project (CRC-P) to support the ZS-Si project. The \$3m of grant funding from CRC-P remains conditional on the signing of a Partners' Agreement currently being negotiated between Silex, UNSW and SQC. The total project is anticipated to cost (including cash and in-kind components) approximately \$8m over three years. Silex's contribution, after grant funding will be approximately \$4m over the duration of the project. As detailed in our ASX announcements and above, SQC has also committed to purchase ZS-Si product from Silex, should the project be successful. In accordance with the Offtake Agreement executed in December, SQC have paid the first of three annual payments of \$300,000 as an offset against future purchases of ZS-Si produced by Silex. As mentioned above, Silex also received \$900,000 from SQC in January 2020 for the placement of 2.3 million shares. The total value of the transaction with SQC is \$1.8m and is in addition to Silex's share of the CRC-P grant.

#### 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, 28 February 2020



## *Auditor's Independence Declaration*

As lead auditor for the review of Silex Systems Limited for the half-year ended 31 December 2019, 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  
28 February 2020

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
*One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650 SYDNEY NSW 2001*  
*T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

*Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124*  
*T +61 2 9659 2476, F +61 2 8266 9999, www.pwc.com.au*

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Silex Systems Limited  
Consolidated income statement  
for the half-year ended 31 December 2019

	<b>6 months ended 31 December 2019</b>	<b>6 months ended 31 December 2018</b>
	<b>\$</b>	<b>\$</b>
Interest revenue	262,573	396,860
<b>Revenue from continuing operations</b>	<b>262,573</b>	<b>396,860</b>
Other income	454,144	536,212
Research and development materials	(140,613)	(49,842)
Development expenditure	(2,970,999)	(16,836)
Finance costs	(7,276)	(1)
Depreciation and amortisation expense	(170,007)	(25,161)
Employee benefits expense	(1,795,030)	(1,864,968)
Consultants and professional fees	(471,038)	(294,854)
Printing, postage, freight, stationery and communications	(44,258)	(37,595)
Rent, utilities and property outgoings	(22,294)	(226,264)
Net foreign exchange losses	(49,935)	-
Other expenses from ordinary activities	(217,702)	(223,698)
<b>(Loss) before income tax expense</b>	<b>(5,172,435)</b>	<b>(1,806,147)</b>
Income tax expense	-	-
<b>Net (loss) from continuing operations</b>	<b>(5,172,435)</b>	<b>(1,806,147)</b>
<b>Net (loss) for the half-year</b>	<b>(5,172,435)</b>	<b>(1,806,147)</b>
(Loss) is attributable to:		
Owners of Silex Systems Limited	(5,172,435)	(1,806,147)
	<b>Cents</b>	<b>Cents</b>
<b>Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company</b>		
Basic earnings per share	(3.0)	(1.1)
Diluted earnings per share	(3.0)	(1.1)
<b>Earnings per share for (loss) attributable to the ordinary equity holders of the company</b>		
Basic earnings per share	(3.0)	(1.1)
Diluted earnings per share	(3.0)	(1.1)

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 2019

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	<b>6 months ended 31 December 2019</b>	<b>6 months ended 31 December 2018</b>
	<b>\$</b>	<b>\$</b>
<b>Net (loss) for the half-year</b>	<b>(5,172,435)</b>	<b>(1,806,147)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Exchange differences on translation of foreign operations	<b>30,148</b>	794,011
<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>(1,598,825)</b>	(5,965,040)
<b>Other comprehensive income for the half-year, net of tax</b>	<b>(1,568,677)</b>	(5,171,029)
<b>Total comprehensive income for the half-year</b>	<b>(6,741,112)</b>	(6,977,176)
Attributable to:		
Owners of Silex Systems Limited	<b>(6,741,112)</b>	(6,977,176)
<b>Total comprehensive income for the half-year</b>	<b>(6,741,112)</b>	(6,977,176)

*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 2019

	Note	31 December 2019 \$	30 June 2019 \$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		4,584,560	2,653,590
Other financial assets at amortised cost - term deposits		17,800,000	22,200,000
Trade and other receivables	3	1,218,252	1,900,118
Other current assets		260,420	409,144
Financial assets at fair value through other comprehensive income	4	8,645,457	10,240,588
<b>Total current assets</b>		<b>32,508,689</b>	<b>37,403,440</b>
<b>Non-current assets</b>			
Right of use assets		136,808	-
Property, plant and equipment		263,862	113,924
<b>Total non-current assets</b>		<b>400,670</b>	<b>113,924</b>
<b>Total assets</b>		<b>32,909,359</b>	<b>37,517,364</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	5	2,716,382	719,337
Lease liabilities		109,746	-
Provisions		748,337	745,039
<b>Total current liabilities</b>		<b>3,574,465</b>	<b>1,464,376</b>
<b>Non-current liabilities</b>			
Lease liabilities		5,571	-
Provisions		20,676	18,802
<b>Total non-current liabilities</b>		<b>26,247</b>	<b>18,802</b>
<b>Total liabilities</b>		<b>3,600,712</b>	<b>1,483,178</b>
<b>Net assets</b>		<b>29,308,647</b>	<b>36,034,186</b>
<b>EQUITY</b>			
Contributed equity	6	231,750,374	231,750,374
Reserves		10,574,389	12,127,493
Accumulated losses		(213,016,116)	(207,843,681)
<b>Total equity</b>		<b>29,308,647</b>	<b>36,034,186</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 2019

	Attributable to owners of Silex Systems Limited			
	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
<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>-</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>
<b>Balance at 30 June 2019</b>	<b>231,750,374</b>	<b>12,127,493</b>	<b>(207,843,681)</b>	<b>36,034,186</b>
Net (loss) for the half-year	-	-	(5,172,435)	(5,172,435)
Other comprehensive income	-	(1,568,677)	-	(1,568,677)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(1,568,677)</b>	<b>(5,172,435)</b>	<b>(6,741,112)</b>
<b>Transactions with owners in their capacity as owners:</b>				
Employee share scheme - value of employee services	-	15,573	-	15,573
	-	<b>15,573</b>	-	<b>15,573</b>
<b>Balance at 31 December 2019</b>	<b>231,750,374</b>	<b>10,574,389</b>	<b>(213,016,116)</b>	<b>29,308,647</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 2019

	6 months ended 31 December 2019 \$	6 months ended 31 December 2018 \$
<b>Cash flows from operating activities</b>		
Receipts from customers and government grants (inclusive of GST)	1,259,144	9,316
Payments to suppliers and employees (inclusive of GST)	(3,949,156)	(3,772,148)
Interest received	449,201	497,674
Interest paid	(6,617)	(1)
<b>Net cash (outflows) from operating activities</b>	<b>(2,247,428)</b>	<b>(3,265,159)</b>
 <b>Cash flows from investing activities</b>		
Proceeds from other financial assets at amortised cost - term deposits	4,400,000	3,100,000
Payments for property, plant and equipment	(81,713)	(26,875)
<b>Net cash inflows from investing activities</b>	<b>4,318,287</b>	<b>3,073,125</b>
 <b>Cash flows from financing activities</b>		
Repayment of principal elements of leases	(139,918)	-
<b>Net cash (outflows) from financing activities</b>	<b>(139,918)</b>	<b>-</b>
 <b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,930,941</b>	<b>(192,034)</b>
Cash and cash equivalents at the beginning of the half-year	2,653,590	2,002,145
Effects of exchange rate changes on cash	29	5,421
<b>Cash and cash equivalents at end of half-year *</b>	<b>4,584,560</b>	<b>1,815,532</b>
 *Term deposits excluded from Cash and cash equivalents	<b>17,800,000</b>	<b>26,751,837</b>

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

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

On 16 December 2019, Silex announced the execution of a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco Corporation and GE-Hitachi Nuclear Energy (GEH) for the joint purchase, by Silex and Cameco, of GEH's 76% interest in the SILEX technology licensee GE-Hitachi Global Laser Enrichment LLC (GLE). Subject to obtaining US Government approvals and other factors, closing of the MIPA would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%. The MIPA includes a number of key financial terms and provisions including the Purchasers' obligation to reimburse GEH for its share of funding for GLE's Wilmington activities. From 1 January 2020, Silex is required to reimburse GEH US\$170,000 per month. In addition, Silex is required to pay GEH US\$1.125m being for the reimbursement of costs held over from the previous Term Sheet agreed between the parties. US\$1.125m was paid to GEH on 6 February 2020.

Also, during December 2019, Silex launched a new project for the production of high-purity 'Zero-Spin Silicon' (ZS-Si) for the fabrication of next-generation processor chips which will power silicon-based quantum computers. The launch of the project was marked by the signing of an Offtake Agreement between Silex and Silicon Quantum Computing Pty Ltd (SQC), which includes SQC making three annual payments of \$300,000 as an offset against future purchases of ZS-Si produced by Silex. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring, through a private placement for \$900,000, 2.3 million fully paid ordinary shares in the capital of Silex bringing the total value of the transaction to \$1.8m. The Silex shares were issued to SQC on 7 January 2020.

**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 three operating segments based on the reports reviewed by Management and the Board of Directors to make strategic decisions. These segments are Silex Systems, Translucent and Silex USA. Silex USA was incorporated for the purposes of acquiring an interest in GLE.

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

<b>Half-year ended 31 December 2019</b>	Silex Systems \$	Translucent \$	Silex USA \$	Total \$
Total segment revenue	285,390	514,860	-	800,250
Inter-segment revenue	(22,817)	(514,860)	-	(537,677)
<b>Revenue from external customers</b>	<b>262,573</b>	<b>-</b>	<b>-</b>	<b>262,573</b>
Interest revenue	262,573	-	-	262,573
<b>Segment result</b>	<b>(2,191,537)</b>	<b>(9,254)</b>	<b>(2,971,644)</b>	<b>(5,172,435)</b>
<b>Half-year ended 31 December 2018</b>	Silex Systems \$	Translucent \$	Silex USA \$	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>-</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>-</b>	<b>(1,806,147)</b>

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2019 (continued)

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 \$	Translucent \$	Silex USA \$	Total \$
<b>Total segment assets</b>				
31 December 2019	<b>23,636,505</b>	<b>9,272,854</b>	-	<b>32,909,359</b>
30 June 2019	26,416,466	10,882,803	218,095	37,517,364

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

	Silex Systems \$	Translucent \$	Silex USA \$	Total \$
<b>Total segment liabilities</b>				
31 December 2019	<b>1,984,813</b>	<b>11,678</b>	<b>1,604,221</b>	<b>3,600,712</b>
30 June 2019	1,471,464	11,714	-	1,483,178

**Note 3 Trade and other receivables**

	31 December 2019 \$	30 June 2019 \$
Accrued income from sale of Translucent's cREO™ technology	570,390	570,184
Other receivables	3,812	18,814
Derivative financial instruments - forward exchange contracts	-	5,439
Accrued income - other	652,606	1,314,234
Loss allowance	(8,556)	(8,553)
	<b>1,218,252</b>	<b>1,900,118</b>

**Note 4 Financial assets at fair value through other comprehensive income**

	31 December 2019 \$	30 June 2019 \$
Listed securities		
Equity securities – shares in IQE Plc	<b>8,645,457</b>	10,240,588

The value of the shares at 31 December 2019 was impacted by a decline in the IQE share price during the half-year.

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2019 (continued)

**Note 5 Trade and other payables**

	31 December 2019 \$	30 June 2019 \$
Trade creditors	2,046,522	398,667
Unearned income	300,000	-
Derivative financial instruments – forward exchange contracts	48,607	-
Other payables	321,253	320,670
	2,716,382	719,337

**Note 6 Equity**

	31/12/2019 Shares	30/06/2019 Shares	31/12/2019 \$	30/06/2019 \$
<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	\$
30/06/2019	Opening balance	170,467,339	231,750,374
31/12/2019	Closing balance	170,467,339	231,750,374

	Half-year ended 31/12/2019 Options	Half-year ended 31/12/2018 Options
<b>(c) Issue of options during the half-year</b>		
Issue of options to director (CEO/Managing Director)	100,000	-

**Note 7 Net tangible asset backing**

	31 December 2019 \$	30 June 2019 \$	31 December 2018 \$
Net tangible asset backing per ordinary security	17.2 cents	21.1 cents	23.5 cents

**Note 8 Contingent liabilities**

As announced on 16 December 2019, Silex, Cameco and GEH executed a binding Membership Interest Purchase Agreement (MIPA) for the joint purchase from GEH of its 76% interest in GLE, the exclusive Licensee of the SILEX technology.

In the event Silex terminates the MIPA (without cause) prior to Closing, except for termination due to the inability to obtain satisfactory US government approvals, or if the GLE-DOE tails agreement is terminated for any reason before Closing, a termination fee of US\$1m will be payable to GEH. At the current point in time, the timing of any outflow of funds is uncertain and subject to Silex terminating the MIPA. Therefore, the amount is considered to be a contingent liability of the Company.

**Note 9 Events occurring after reporting date**

In accordance with the Subscription Agreement executed by Silex and SQC in December 2019 and the launch of the Zero-Spin Silicon (ZS-Si) project (refer Note 1), Silex received \$900,000 from SQC in January 2020 for the private placement of 2.3 million fully paid ordinary shares in Silex. The placement was completed with the issue of 2.3 million shares on 7 January 2020.

Together with SQC and UNSW Sydney, the Company announced on 10 February 2020 the award of a collaborative funding grant of \$3m from the Commonwealth Cooperative Research Centres Project (CRC-P) to support the ZS-Si project. The \$3m of grant funding from CRC-P remains conditional on the signing of a Partners' Agreement currently being negotiated between Silex, UNSW and SQC. The total project is anticipated to cost (including cash and in-kind components) approximately \$8m over three years. Silex's contribution, after grant funding will be approximately \$4m over the duration of the project. As detailed in our ASX announcements and above, SQC has also committed to purchase ZS-Si product from Silex, should the project be successful. In accordance with the Offtake Agreement executed in December, SQC have paid the first of three annual payments of \$300,000 as an offset against future purchases of ZS-Si produced by Silex. Silex received \$900,000 from SQC in January 2020 for the placement and 2.3 million shares were issued on 7 January 2020. The total value of the transaction with SQC is \$1.8m and is in addition to Silex's share of the CRC-P grant.

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 10 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 2019, the Company held US\$990,000 forward exchange contracts (30 June 2019: US\$250,000). The fair value of derivative contracts outstanding at 31 December 2019 totalled \$48,607 (30 June 2019: \$5,439). The \$48,607 is recorded in Current liabilities – trade and other payables at 31 December 2019 (\$5,439 in Current assets – trade and other receivables at 30 June 2019).

**Note 11 Basis of preparation of the half-year financial report**

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2019 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 2019, the full financial report for the year ended 30 June 2019 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**

AASB 16 *Leases* became applicable for the current reporting period and the Company had to change its accounting policies as a result of adopting the standard. The adoption of this new standard did not require retrospective adjustments to comparatives.

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

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 12 Changes in accounting policies**

This note explains the impact of the adoption of AASB 16 *Leases* on the Company's financial statements. As noted above, Silex has adopted AASB 16 *Leases* retrospectively from 1 July 2019, however as permitted under the specific transition provisions in the standard, has not restated comparatives for the 30 June 2019 reporting period. The reclassifications and the adjustments arising from the adoption of the new leasing standard are therefore recognised in the opening balance sheet on 1 July 2019.

On adoption of AASB 16, Silex recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate as of 1 July 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 6.0%.

**(a) Practical expedients applied**

In applying AASB 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous lease contracts as at 1 July 2019; and
- excluding initial direct costs for the measurement of the right-of-use assets at the date of initial application.

**(b) Measurement of lease liabilities**

The operating lease liability recognised at 1 July 2019 of \$255,235 equates to the operating lease commitments disclosed at 30 June 2019 (\$264,858) after discounting on 1 July 2019.

**(c) Measurement of right of use assets**

The right-of-use assets were measured at the amount equal to the lease liability, adjusted for the amount of prepaid lease payments relating to the leases recognised in the balance sheet at 30 June 2019.

**(d) Adjustments recognised in the balance sheet on 1 July 2019**

The change in accounting policy effected the following items in the balance sheet on 1 July 2019:

- right-of-use assets – increase by \$274,785
- prepayments – decrease by \$19,550
- lease liabilities – increase by \$255,235

**(e) Classification in consolidated income statement**

Upon adoption of the new standard from 1 July 2019, the lease expense, previously shown in Rent, utilities and property outgoings, and Printing, postage, stationery and communications is now disclosed as Depreciation and amortisation expense, and Finance costs in the consolidated income statement.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 8 to 17 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 2019 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  
28 February 2020

**Forward Looking Statements and Business Risks:**

*Silex Systems Limited (Silex) is a research and development company whose primary asset is the SILEX laser 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 for application to uranium enrichment. 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.*

*Silex is also in the early stages of pursuing additional commercial applications of the SILEX technology, including the production of 'Zero-Spin Silicon' for the emerging technology of silicon-based quantum computing. The 'Zero-Spin Silicon' project remains dependent on confirming third party funding contributions and on the outcomes of the project and is therefore 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 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 outcome of the project for the production of 'Zero-Spin Silicon' for the emerging technology of silicon-based quantum computing; the potential development of, or competition from alternative 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 and projects 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) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated cash flow statement and consolidated income statement for the half-year ended on that date, selected explanatory notes and the directors' declaration.

### *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 gives a true and fair view and 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 2019 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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**PricewaterhouseCoopers, ABN 52 780 433 757**

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650 SYDNEY NSW 2001  
T +61 2 8266 0000, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW T +61 2 9659 2476, F +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

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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 2019 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  
28 February 2020