



ANNUAL REPORT

2019



IMPORTANT NOTICE

FORWARD LOOKING STATEMENTS AND BUSINESS RISKS:

Silex Systems (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.

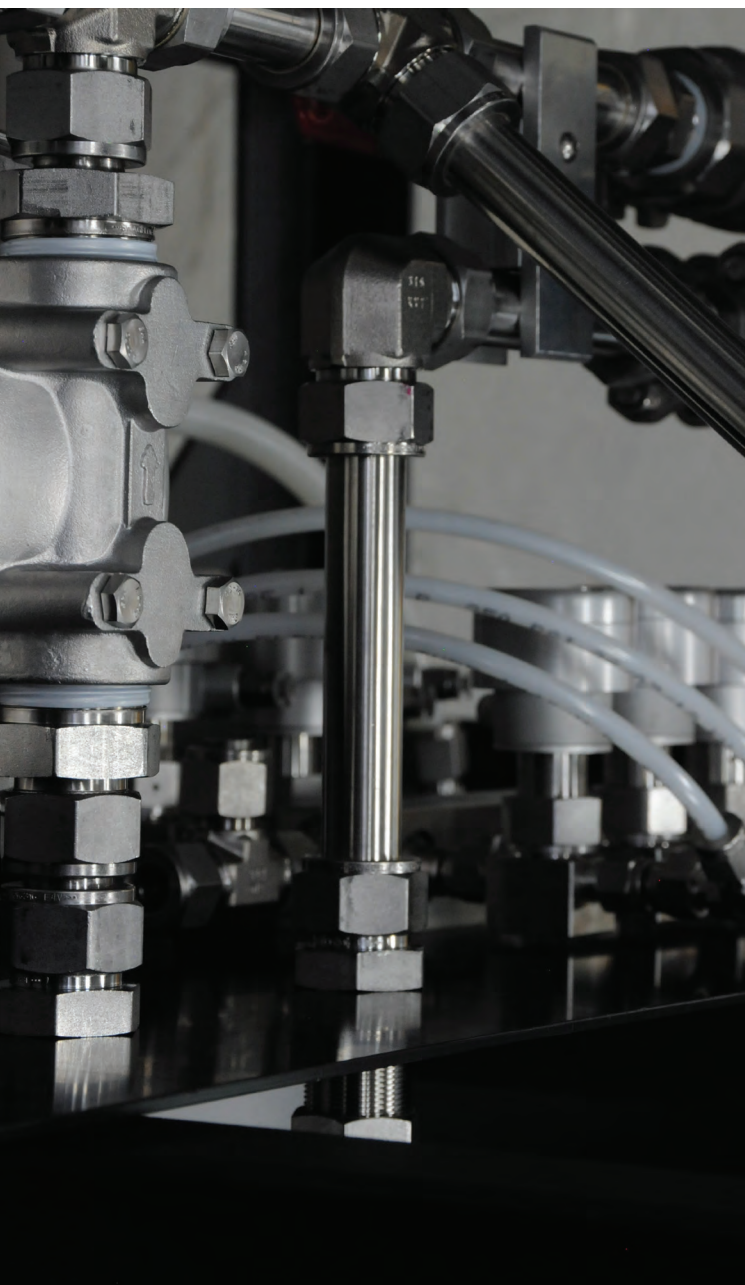
The commercial potential of these two technologies is currently unknown. Accordingly, the statements in this report regarding the future of the SILEX technology, the cREO™ technology and any associated commercial prospects are forward looking and actual results could be materially different from those 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.

CONTENTS

CHAIR'S REPORT	2
CEO'S REPORT	4
TECHNOLOGY OVERVIEW	6
DIRECTORS' REPORT	12
CORPORATE GOVERNANCE STATEMENT	36
CONCISE FINANCIAL REPORT	37
INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS	49
SHAREHOLDERS' INFORMATION	51
COMPANY DIRECTORY	53

CHAIR'S REPORT



“We continue to believe that the third-generation SILEX uranium enrichment technology has significant potential as a key component of the nuclear fuel cycle”

Dear Fellow Shareholders,

It was a privilege and honour to join the Silex Board in January this year and to be appointed as Chair of the Board. During my first eight months as Chair, I have rapidly gained a solid understanding of the Company's operations and associated challenges. I am very excited with the opportunities that lie ahead, and in particular I am highly impressed by our talented and dedicated team who continue to work unwaveringly on our core SILEX laser enrichment technology, as we strive to secure the pathway to commercialise this unique technology.

The year ended 30 June 2019 was both challenging and exciting for Silex – challenging with respect to the continuing difficulties in the nuclear fuel markets, and exciting with respect to the potential commercial opportunities that continue to underpin the Company's value proposition.

The Board and management are focused on seeking to build commercially viable opportunities for the Company whilst taking a very prudent approach to cash expenditure.

With respect to our uranium enrichment project, in February we announced the signing of a new Term Sheet between Silex, GE-Hitachi Nuclear Energy (GEH) and Canadian



uranium miner Cameco Corporation which detailed the key terms for the joint purchase by Silex and Cameco of GEH's majority interest in SILEX technology Licensee GE-Hitachi Global Laser Enrichment LLC (GLE). Since then, great effort has been invested in the transaction documentation for the restructure of GLE, which will, subject to finalisation of binding transaction documentation and obtaining US Government (USG) approvals, result in Silex owning 51% of GLE and Cameco moving from 24% to 49% ownership in GLE. In addition, Silex and Cameco are negotiating an option for Cameco to purchase from Silex at fair market value, an additional 26% interest in GLE, potentially increasing their interest to 75% (subject to USG approvals).

Also, during the year, the Company conducted an assessment of alternative uses of the core SILEX laser enrichment technology and after detailed evaluation, identified some emerging and potentially attractive applications for stable isotope enrichment. The evaluation of a number of opportunities continues.

Whilst we remain cautious with regard to timing of a recovery in the markets for uranium and nuclear fuel, we remain highly committed to the view that nuclear power remains a proven and extremely reliable source of zero-emissions base-load power generation. Accordingly, we continue to believe that the third-generation SILEX uranium enrichment technology has significant potential as a key component of the nuclear fuel cycle and will be well placed to participate in meeting the demands of fuelling the world's nuclear power industry in the future, including the emerging Small Modular Reactor technologies.

We were also very pleased with IQE's decision in early 2018 to purchase Silex subsidiary Translucent Inc's cREO™ semiconductor material technology, resulting in the receipt of a payment of US\$5 million (in IQE shares) in September 2018. Minimum royalty payments are expected to commence being received in FY2020. With IQE's business case appearing to strengthen in several key semiconductor

markets, we remain excited that the cREO™ technology could be utilised in a number of emerging and fast-growing semiconductor device markets.

CORPORATE GOVERNANCE

The Silex Board underwent a restructure during the year that resulted in the appointment of Melissa Holzberger and myself as Non-executive directors. I am delighted with Melissa's appointment and would like to acknowledge the important contributions made by the previous Chair Lisa McIntyre and Director Robert Lee. I am pleased to lead a diverse and high-quality Board with significant experience in technology commercialisation, depth of knowledge in the nuclear industry and a keen focus on governance. This mix of skills, experience and industry knowledge is key to enable the Company to take full advantage of current and future opportunities as they present, and to address the various challenges we face with due attention to risk management and governance oversight.

My fellow Board members and Silex management thank you for your continued support. I look forward to updating you again at our Annual General Meeting in November.



Craig Roy

Chair

29 August 2019

CEO'S REPORT

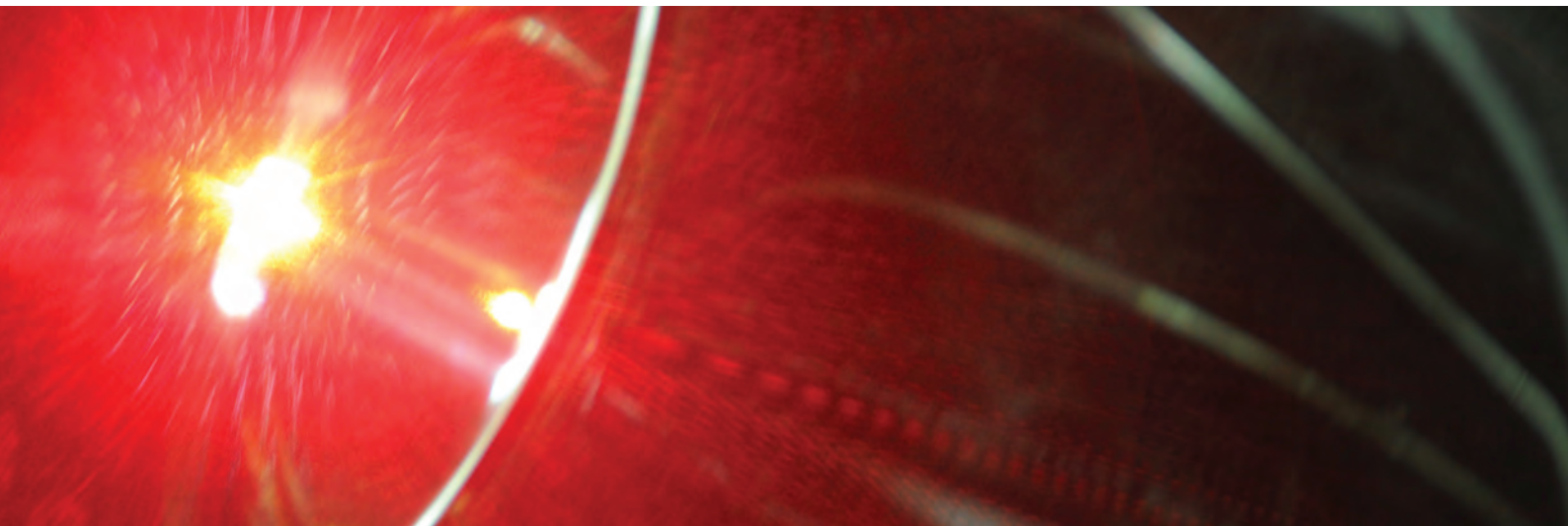


“The Paducah opportunity provides an ideal path to market for our potentially disruptive SILEX laser enrichment technology”

Dear Shareholders,

During the year in review, we have continued to execute our ongoing strategy to preserve value and optionality for the future commercialisation of the SILEX laser-based uranium enrichment technology in a market still suffering various challenges. Most notably, our efforts have continued to focus on the restructure of the exclusive Licensee of the SILEX technology, GE-Hitachi Global Laser Enrichment LLC (GLE). Our key objective in this restructure is to enable Silex to gain greater leverage in the future of our core technology by becoming more directly involved in the SILEX technology commercialisation program and in GLE's business development path in the US.

In February we were pleased to announce the signing of a new Term Sheet between Silex, GE-Hitachi Nuclear Energy (GEH) and Canadian uranium miner Cameco Corporation (Cameco) which detailed the key terms for the joint purchase by Silex and Cameco of GEH's majority interest in GLE. We continue to work diligently on the transaction documentation for this restructure and look forward to bringing this to a timely conclusion. Subject to successful execution of binding



transaction documentation and obtaining US government approvals, the restructure would result in Silex acquiring a 51% majority interest in GLE and Cameco increasing its ownership in GLE from 24% to 49%.

The commercial prospects for our technology are essentially underpinned by the Paducah commercial plant opportunity which resulted from the agreement signed in 2016 between the US Department of Energy (DOE) and GLE for the re-enrichment of a very large stockpile of DOE's tails inventories using the SILEX technology. The Paducah commercial opportunity provides an ideal path to market for our potentially disruptive SILEX laser enrichment technology and efforts have been focused to ensure that the agreement with the DOE remains in full force and effect through to the anticipated recovery in the nuclear fuel markets.

A focused effort continued on the technology commercialisation program at both the Silex, Sydney and GLE, Wilmington, North Carolina project sites during the year. Activities at both sites remain dedicated to the future deployment of prototype plant-scale equipment required for pre-commercial testing.

Today, the SILEX laser enrichment technology is the only third generation uranium enrichment technology under commercial development, which if successful, could enable the technology to become a major contributor to the production of both natural grade uranium from the re-enrichment of the DOE tails inventories; and of enriched uranium for today's nuclear reactor fleet and also for the emerging Small Modular Reactor technologies. Despite the current overcapacity in the markets for nuclear fuel, we take a long-term view and we anticipate that with the restructure of GLE, we will be well positioned to participate in the expected recovery of the global markets for natural and enriched uranium.

In parallel, we continue to assess alternative uses of the SILEX technology and in particular the assessment of potentially attractive applications for stable isotope separation which may enable us to leverage nearer term opportunities.

Evaluation of a number of opportunities is being completed and we look forward to providing an update on our progress in due course.

As reported in September 2018, following UK-based IQE Plc's (AIM: IQE) election to purchase our subsidiary Translucent's semiconductor material technology known as 'crystalline Rare Earth Oxides' (cREO™), a payment of US\$5m (via the issue of IQE shares) was received. We continue to be encouraged by IQE's commitment to the cREO™ commercialisation program and the plan to utilise the technology in several of their key semiconductor markets. In addition to the US\$5 million purchase price, 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. IQE is the global leader in the design and manufacture of advanced semiconductor wafer products and is well positioned to commercialise this unique technology and take it to market.

We thank you for your ongoing support and look forward to providing a further update on our technologies at the Annual General Meeting in November.



Dr Michael Goldsworthy
CEO/Managing Director
29 August 2019

TECHNOLOGY OVERVIEW

THE SILEX LASER URANIUM ENRICHMENT TECHNOLOGY

Background to the SILEX technology

The SILEX technology was invented by Silex Systems scientists Dr Michael Goldsworthy and Dr Horst Struve in the mid 1990's at Lucas Heights, Sydney. In order to facilitate the potential commercial deployment of the technology in the United States, an Agreement for Cooperation between the governments of the United States and Australia was signed in May 2000.

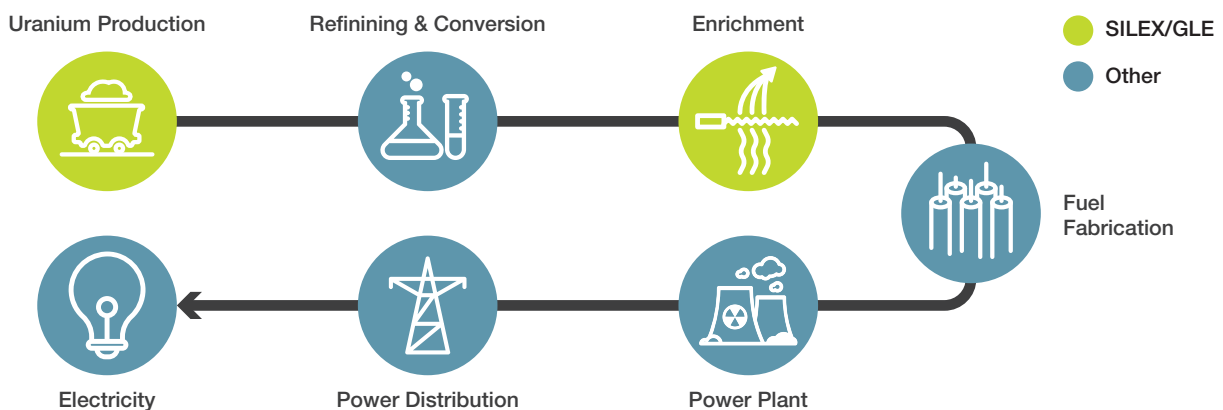
In June 2001, the technology was officially Classified by the United States and Australian governments, bringing the SILEX technology commercialisation project formally under strict safeguards security and nuclear regulatory protocols of each country.

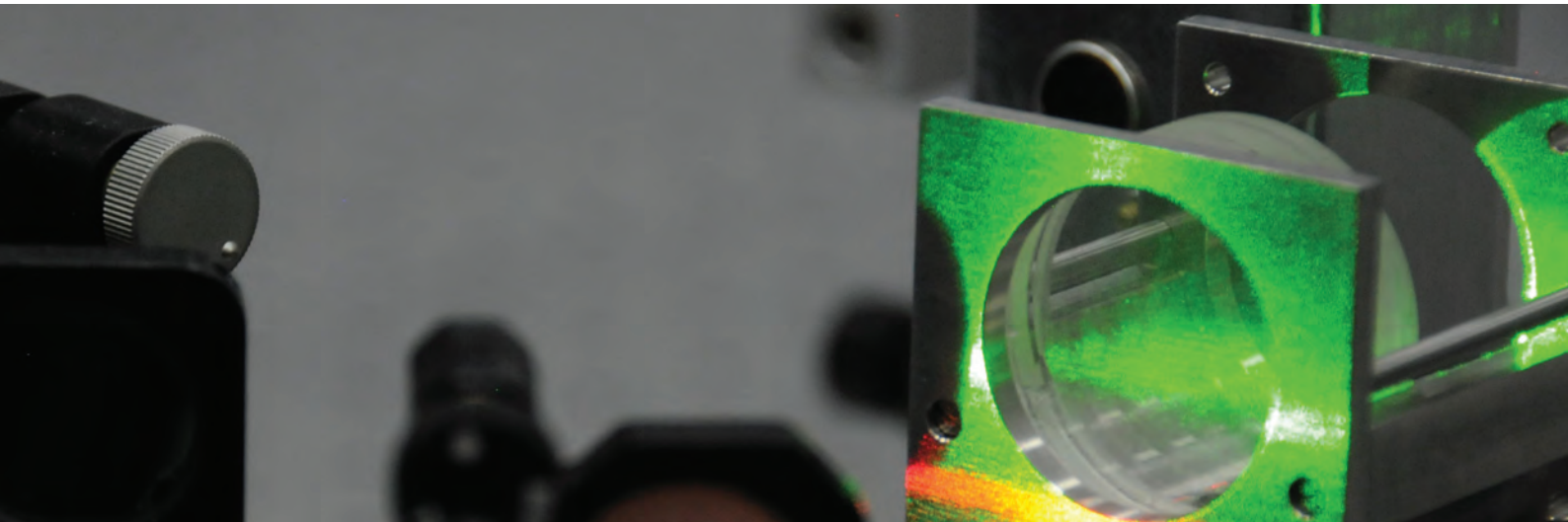
In 2006 the Company signed a Technology Commercialisation and License Agreement with General Electric Company (GE) to develop and commercialise the technology to enrich uranium for use in nuclear power reactors around the world. Since 2008, the project has been managed by GE subsidiary GE-Hitachi Global Laser Enrichment LLC (GLE) – a joint venture business between

GE (51% interest), Hitachi (25%) and Canadian uranium company Cameco Corporation (24%). GLE has been undergoing a restructure for a number of years in response to the adverse nuclear fuel market conditions resulting from the Fukushima accident. In February 2019, Silex announced the signing of a Term Sheet between Silex, GE-Hitachi Nuclear Energy (GEH) and Cameco for the joint purchase of GEH's 76% interest in GLE. Further detail on the restructure of GLE is provided below.

Uranium Enrichment

Naturally occurring uranium is dominated by two isotopes, U^{235} and U^{238} . Nuclear energy is produced by the splitting (or 'fission') of the U^{235} atoms. Natural uranium is made up of ~0.7% of the 'active' U^{235} isotope with the balance (~99.3%) made up of the U^{238} isotope. Uranium enrichment is the process of concentrating or enriching the U^{235} isotope up to ~5% for use as fuel in a nuclear power reactor. Enrichment is a technically difficult process and constitutes a major component of nuclear fuel costs accounting for around one third of the cost of nuclear fuel and approximately 5% of the total cost of the electricity generated at current prices.





The **S**eparation of **I**sotopes by **L**aser **E**xcitation (SILEX) process is the only third generation laser enrichment technology at an advanced stage of development today. It is able to effectively enrich uranium through highly selective laser excitation of the $^{235}\text{UF}_6$ isotopic molecule.

The two methods of uranium enrichment used to date have been the now obsolete Gas Diffusion (first generation) and Gas Centrifuge (second generation). Silex's third generation laser-based process provides much higher enrichment process efficiency compared to these earlier methods, potentially offering significantly lower overall costs.

Uranium Enrichment Technology

1ST GENERATION TECHNOLOGY

GASEOUS DIFFUSION



$\beta = 1.004$

High cost

Obsolete

2ND GENERATION TECHNOLOGY

CENTRIFUGE



$\beta \sim 1.25$

Lower cost

Current technology

3RD GENERATION TECHNOLOGY

LASER EXCITATION



$\beta \sim 2 - 20^1$

Most cost effective

In commercialisation phase

1. β is the process efficiency (Classified number)

SILEX Uranium Enrichment

The SILEX technology is a unique laser-based process that has the potential to economically separate uranium isotopes. It has a number of advantages over other uranium enrichment processes including:

- Inherently higher efficiency resulting in lower enrichment costs;
- Smaller environmental footprint than centrifuge and diffusion plants;
- Greater flexibility in producing advanced fuels for next generation small modular reactors (SMRs); and
- Anticipated to have the lowest capital costs of all enrichment technologies.

The Nuclear Fuel Production

The SILEX technology can be utilised in 2 steps of the Nuclear Fuel Cycle to produce:

1. natural grade uranium via re-enrichment of tails inventories; and
2. enriched uranium for use as fuel in nuclear power reactors.

At current prices, uranium production and enrichment account for approximately 70% of the cost of nuclear fuel.

TECHNOLOGY OVERVIEW (CONTINUED)

The SILEX Technology License Agreement with GLE

Silex's existing license agreement with GLE (the Amended and Restated Technology Commercialisation and License Agreement) signed in 2013, is an exclusive worldwide license for exploitation of the SILEX technology. Silex's potential acquisition of a 51% interest in GLE does not affect the license agreement between Silex and GLE, under which Silex will be potentially entitled to a perpetual royalty of between 7 – 12% on revenues generated by GLE from any future use of the SILEX technology, including the Paducah commercial plant opportunity. Further milestone payments totalling US\$20m may also be payable to Silex in the event the SILEX technology is commercialised by GLE.

GLE Restructure

In February 2019 Silex and Cameco signed a Term Sheet with GE-Hitachi Nuclear Energy detailing key terms for the joint purchase of its 76% interest in GLE. If successfully completed, the proposed restructure of GLE would result in Silex acquiring a 51% interest, and Cameco increasing its interest in GLE from 24% to 49%.

The transaction remains subject to finalising mutually satisfactory binding transaction documentation and obtaining US Government approvals. Additionally, closing of the transaction is conditional on the 2016 GLE-DOE Sales Agreement (for GLE's purchase of DOE depleted tails inventories for the Paducah opportunity) remaining in full force and effect (refer next section).

A key objective of Silex's participation in the GLE restructure is to allow the Company to create new opportunities by becoming more directly involved in the SILEX technology commercialisation program and in GLE's business development path. In particular, the Company places considerable value in the Paducah, Kentucky commercial plant opportunity, for the re-enrichment of a large stock-pile of DOE tails inventories over a 30 to 40-year period using the SILEX technology.

The Paducah Project Opportunity

The Paducah commercial plant opportunity continues to be viewed as an ideal path to market for the SILEX technology. The opportunity would allow for the initial commercial deployment of the technology on a smaller scale and at a lower cost, representing a lower risk path to market for investors and other stakeholders.

The opportunity would involve construction of GLE's proposed 'Paducah Laser Enrichment Facility' (PLEF) utilising the SILEX technology to re-enrich large stockpiles of depleted tails inventories owned by the DOE. An agreement between GLE and the DOE providing for the sale of the tails inventories to GLE was signed in November 2016.

The tails re-enrichment at the PLEF would occur over several decades, resulting in the production of natural grade uranium which could then be sold into the expanding global uranium market. At a nominal production rate of around 2,000 metric tons of natural uranium hexafluoride (UF₆) per year (subject to applicable regulations), preliminary economic analysis indicates this would rank as a large 'Tier 1' uranium mine by today's standards.

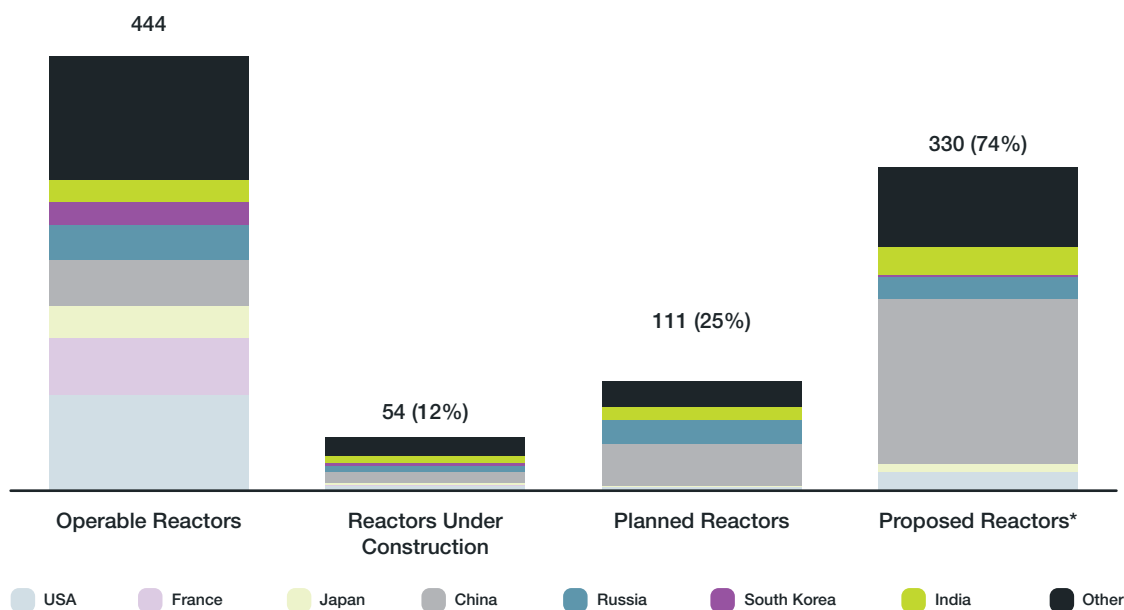
Subject to a recovery in uranium market pricing and receipt of required regulatory approvals and securing project financing, the Paducah commercial plant opportunity represents an ideal path to full commercial deployment of our unique laser enrichment technology.

Nuclear Power Outlook

Global markets for nuclear fuel are expected to grow on a long-term basis as the deployment of nuclear power for electricity generation increases around the world. With the UN (Department of Economic and Social Affairs) forecasting the world's population to increase from 7.7 billion currently to around 9.7 billion in 2050, the demand for reliable and affordable base-load power will increase strongly. Furthermore, with growing concerns regarding the impacts of climate change and continued uncertainty over efforts to curb global carbon emissions, there is renewed focus on the importance of nuclear power as a zero-emissions source of electricity generation.

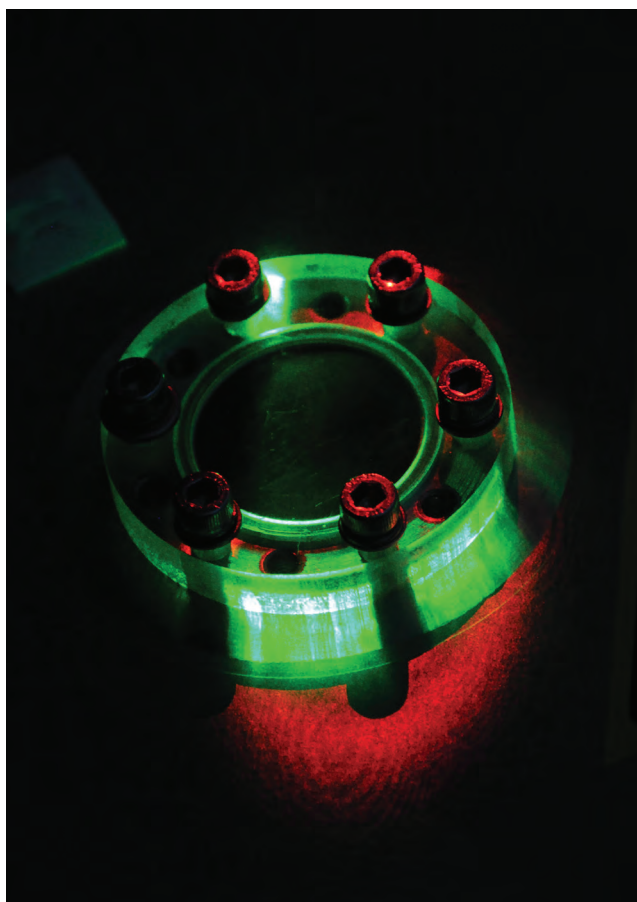
In terms of population growth and climate change mitigation, the long-term value proposition for nuclear energy therefore remains positive. There are currently 444 operable nuclear reactors today, and 54 nuclear reactors under construction. The US is the world's largest producer of nuclear power, with 97 operable reactors accounting for more than 30% of worldwide nuclear generation of electricity. China is the fastest growing nuclear energy market, with 47 reactors in operation, 11 under construction and a pipeline of over 200 proposed reactors for construction. In addition, there is the potential for commercialisation of next-generation small modular reactors (SMRs) – which may offer significant advantages over large conventional nuclear power reactors. SMRs have the potential to be cheaper and simpler to construct, and to compete favourably with intermittent distributed generation such as solar and wind. There are currently numerous SMR development programs advancing around the world.

World Nuclear Reactor Population



* Other Proposed Reactors include 16 proposed in Saudi Arabia, 8 in Turkey and 8 in South Africa

Source: World Nuclear Association August 2019



Nuclear Fuel Markets Outlook

Market conditions in the nuclear fuel industry will continue to be challenging for some time. The ongoing delays to the restart of the Japanese nuclear fleet, premature retirement of plants in the US, Japan and Europe and ongoing energy policy debates in numerous countries continue to have an impact on the nuclear fuel markets.

In terms of the prospects for the SILEX technology, the markets for natural and enriched uranium are likely to remain over supplied with depressed pricing over the next few years. With this in mind, delays to the potential start-up of the Paducah tails re-enrichment project are inevitable. Accordingly, GLE and the DOE have been discussing extensions to the tails sales agreement signed in 2016 to ensure that this agreement remains in full force and effect through the period when a market recovery can be expected.

Whilst challenges remain in the short to medium-term for the nuclear power industry and its fuel markets, a more positive outlook remains for the longer-term. There are many countries where government policy and commitment to climate change initiatives state that nuclear power should form a meaningful part of their energy mix in the future. We therefore believe the supply and demand fundamentals of the nuclear fuel markets are set to recover in the coming years, and that this recovery will support the implementation of the Paducah commercial plant opportunity over the coming decade.

TECHNOLOGY OVERVIEW (CONTINUED)

THE cREO™ SEMICONDUCTOR TECHNOLOGY

Background to the cREO™ Technology

Silex subsidiary Translucent Inc developed a novel set of semiconductor materials known as 'crystalline Rare Earth Oxides' (cREO™) for application to the manufacturing of next generation semiconductor devices used in wireless communications, power electronics and other advanced semiconductor industries. The cREO™ technology was purchased by UK-based IQE (AIM: IQE) in early 2018 in accordance with the 2015 License and Assignment Agreement between Translucent and IQE. As a result, 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 expected to commence being paid in FY2020.

IQE is the global leader in the design and manufacture of advanced semiconductor wafer products used in many of today's advanced semiconductor devices, such as smart phones and wireless technologies.

IQE's Development of cREO™

The cREO™ technology was successfully transferred in late 2015 to IQE's Greensboro, North Carolina manufacturing facility for the completion of product development and commercialisation activities. IQE have reported good progress with the development and demonstration of the cREO™ technology for the potential integration of advanced high-performance compound semiconductor materials on silicon wafers across IQE's portfolio. In particular, IQE reported continued strong progress in the development of their 5G RF Filter Materials Portfolio based on the cREO™ technology, and are actively engaged with several semiconductor customers to bring this product to market.

IQE regards the cREO™ technology as an enabling technology that would allow it to make a step change for the integration of various compound semiconductor devices with large scale silicon wafer-based production techniques. This has the potential to significantly lower the cost of production of next generation devices such as chips for wireless communications devices (principally targeting next generation smart phones) and power electronics devices (for example, as commonly found in today's solar inverters and electric vehicles).



CONCISE FINANCIAL REPORT

for the year ended 30 June 2019



SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES

ABN 69 003 372 067

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 year ended 30 June 2019.

1. DIRECTORS

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

Dr M P Goldsworthy

Mr C D Wilks

Dr L M McIntyre and Mr R A R Lee were directors from the beginning of the 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. PRINCIPAL ACTIVITIES

Silex is primarily focused on 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, Sydney facility and in Wilmington, North Carolina by GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology since 2006.

3. DIVIDEND

No dividend payments were made during the year. No dividend has been recommended or declared by the Board.

DIRECTORS' REPORT

4. REVIEW OF OPERATIONS AND ACTIVITIES

Information on the operations and financial position of the consolidated entity and its business strategies and prospects is set out below and in section 8 'Likely developments and expected results of operations'.

Trading Results

A summary of consolidated revenue and results is set out below:

	2019 \$	2018 \$
Revenue from continuing operations	744,560	1,060,295
Other income	1,582,190	7,552,662
(Loss) before tax	(5,153,108)	(4,579,381)
Income tax expense	–	–
Net (loss) from continuing operations	(5,153,108)	(4,579,381)
Net (loss) for the year	(5,153,108)	(4,579,381)
Net (loss) is attributable to:		
Owners of Silex Systems Limited	(5,153,108)	(4,579,381)

Key information about the consolidated operations, results and financial position

Comments on the operations and the results of those operations are set out below.

During FY2019, we continued with the execution of our strategy to preserve value and optionality for the future commercialisation of the SILEX laser-based uranium enrichment technology, including our intention to participate in the restructure of the exclusive Licensee of the SILEX technology, GE-Hitachi Global Laser Enrichment LLC (GLE).

In February 2019, we were pleased to announce the signing of a new Term Sheet between Silex, GE-Hitachi Nuclear Energy (GEH) and Canadian uranium miner Cameco Corporation which detailed the key terms for the joint purchase by Silex and Cameco of GEH's majority interest in SILEX technology Licensee GLE. We continue to progress towards the execution of binding transaction documentation for the restructure of GLE and preparation of the additional documentation seeking the requisite approval of the transaction from the US government (USG). Subject to gaining USG approvals and closing of the transaction, Silex will own 51% of GLE and Cameco will increase their ownership interest from 24% to 49%.

In parallel with the GLE restructure activities, a focused effort continued on the technology commercialisation program at both the Silex, Sydney and GLE, Wilmington, North Carolina project sites. Laser system development activities in Sydney included design optimisation for the prototype commercial-scale plant laser system. Activities in Wilmington included the preparation of the Test Loop facility for future deployment of prototype plant-scale equipment required for pre-commercial testing.

Today, the SILEX technology is the only third-generation uranium enrichment technology that can be a major contributor to two key steps of the nuclear fuel cycle for the world's nuclear reactor fleet. That is the production of natural grade uranium from the re-enrichment of tails inventories and as a supplier of enriched uranium. Whilst we remain cautious with regard to the timing of a recovery in the markets for nuclear fuel, we remain highly committed to the view that nuclear power remains a proven and extremely reliable source of zero-emissions base-load power generation. Accordingly, we continue to believe that the third-generation SILEX uranium enrichment technology has significant potential as a key component of the nuclear fuel cycle and will be well placed to participate in meeting the demands of fuelling the world's nuclear power industry in the future, including the emerging Small Modular Reactor technologies.

DIRECTORS' REPORT

We were also very pleased with IQE Plc's decision in early 2018 to purchase Silex subsidiary Translucent Inc's cREO™ semiconductor material technology, resulting in the receipt of a payment of US\$5 million (in IQE shares) in September 2018. 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. Minimum annual royalties are due for the 6 years ending 31 December 2024, with the initial minimum annual royalty of US\$400,000 expected to be paid in FY2020.

The cREO™ technology is regarded by IQE as an enabling technology that would allow IQE to make a step change for the integration of various compound semiconductor devices with large-scale silicon wafer-based production techniques. This has the potential to significantly lower the cost of production of next generation devices such as chips for wireless communications devices (principally targeting next generation smart phones) and power electronics devices.

Financial review

A summary of our consolidated income statement is set out below:

	2019 \$	2018 \$
Revenue from continuing operations	744,560	1,060,295
Other income	1,582,190	7,552,662
Research and development materials	(240,153)	(382,999)
Development expenditure	(1,984,328)	(5,799,314)
Employee benefits expense	(3,614,476)	(3,866,174)
Consultants and professional fees	(680,867)	(2,066,401)
Rent, utilities and property outgoings	(394,392)	(419,164)
Other expenses	(565,642)	(658,286)
Income tax expense	–	–
Net (loss) from continuing operations	(5,153,108)	(4,579,381)
Net (loss) for the year	(5,153,108)	(4,579,381)

The net loss from ordinary activities was \$5.2m compared to \$4.6m in the prior year. The increase in net loss from ordinary activities is mainly due to a \$6.3m reduction in revenue and other income which was partly offset by a \$5.7m reduction in expenses. The prior year included \$6.4m income from the sale of Translucent's cREO™ technology assets compared to \$0.6m in the current year. Interest revenue also reduced from \$1.0m to \$0.7m in the current period as cash reserves decreased.

The \$5.7m reduction in expenses included a decrease of \$3.8m in Development expenditure in the current period as a result of the new Term Sheet signed in February 2019 for the joint purchase of GEH's 76% interest in GLE by Silex and existing 24% GLE shareholder, Cameco. The new Term Sheet resulted in a lower level of funding by Silex reflecting the lower expenditure budget for GLE in the current year and the sharing of the funding obligation with Cameco. Consultants and professional fees expenses also decreased by \$1.4m in the current year as a result of reduced expenditure with respect to the GLE restructure. Employee benefits expense also reduced by \$0.3m in the current period as the Company's headcount was declined during the year.

Further commentary on the results from our operations and the factors contributing to the increased net loss from ordinary activities (after tax) attributable to members is provided below.

Silex Systems and Silex USA

Silex USA LLC was incorporated for the purpose of acquiring an interest in GLE and has incurred the Development expenditure for the continuing GLE activities following the signing of the new Term Sheet in February 2019. Silex has an obligation to fund US\$0.2m per month and this obligation was retrospective to 1 September 2018. The combined loss of Silex Systems and

DIRECTORS' REPORT

Silex USA decreased from \$10.6m in the prior year to \$5.7m. The decrease in net loss was largely attributable to a reduction in Development expenditure and Consultants and professional fees as outlined above.

Translucent

The Translucent segment result was a \$0.5m profit in the current year compared to a \$6.1m profit in the prior year. The prior year result included \$6.4m profit on sale of assets to IQE following IQE's exercise of the option to acquire Translucent's cREO™ technology in March 2018. The current year result included \$0.6m of income which related to the accrual of royalties in accordance with the sale of the technology.

Balance sheet

A summary of our balance sheet is set out below:

	30 June 2019 \$	30 June 2018 \$
Assets		
Total current assets	37,403,440	49,668,457
Total non-current assets	113,924	119,178
Total assets	37,517,364	49,787,635
Liabilities		
Total current liabilities	1,464,376	2,588,070
Total non-current liabilities	18,802	118,501
Total liabilities	1,483,178	2,706,571
Net assets	36,034,186	47,081,064
Equity		
Total equity	36,034,186	47,081,064

As at 30 June 2019, total assets were \$37.5m. Significant assets are cash holdings of \$24.9m (cash and term deposits), and Financial assets at fair value through other comprehensive income of \$10.2m (shares in IQE). Total liabilities were \$1.5m. The reduction in net assets was due to the net loss for the year and the decline in the IQE Plc share price.

5. EARNINGS PER SHARE

	2019 Cents	2018 Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	(3.0)	(2.7)
Diluted earnings per share	(3.0)	(2.7)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		
Basic earnings per share	(3.0)	(2.7)
Diluted earnings per share	(3.0)	(2.7)

DIRECTORS' REPORT

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

In 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 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, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals. While the new Term Sheet is primarily Non-binding, there are certain binding provisions including a 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 was retrospective to 1 September 2018. This monthly funding commitment has been incurred by Silex USA LLC.

7. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Between 30 June 2019 and the date of this report, the IQE Plc share price (AIM: IQE) has decreased significantly. Combined with movements in exchange rates, the value of the shares held at 30 June 2019 (disclosed as Financial assets at fair value through other comprehensive income) has decreased by approximately \$1,380,000 since 30 June 2019. 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 30 June 2019 will be recognised in the financial statements for the year ended 30 June 2020.

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 this Directors' Report.

8. LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Overview

Silex is primarily focused on 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 GLE, the exclusive Licensee of the SILEX technology since 2006. GLE has been undergoing a restructure due to GEH's stated intention to exit GLE, due to changes in business priorities and the continuing adverse market conditions driven by the Fukushima disaster in 2011.

In February 2019, Silex announced the signing of a new Term Sheet between Silex and Canadian uranium miner Cameco Corporation (Cameco) and GEH to provide a framework for the parties to arrive at a mutually acceptable restructure of GLE. The new Term Sheet outlined the proposed transaction the parties would enter into for the purchase of GEH's 76% interest in GLE, which upon closing would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest in GLE from 24% to 49%. Silex has pursued the restructure of GLE to enable the Company to have greater involvement in the technology commercialisation program in the future.

The parties continue to work diligently on the binding transaction documentation for the restructure of GLE. Silex and Cameco are also negotiating several ancillary documents which will support the restructure of GLE under the proposed transaction, including a new shareholders' agreement for the governance of GLE after closing of the transaction. In the event transaction documentation is executed, transaction closing will be conditional, among other things, on obtaining US Government approvals and on the 2016 GLE-DOE Sales Agreement (for GLE's purchase of DOE depleted tails inventories) remaining in full force and effect. Silex and Cameco have also negotiated several other key terms that will take effect from transaction closing, including an option for Cameco to purchase from Silex at fair market value, an additional 26% interest in GLE, potentially increasing their interest to 75% (subject to US Government approvals).

Silex's potential acquisition of an interest in GLE does not affect the Amended and Restated Technology Commercialisation and License Agreement (ARTCLA) signed between Silex and GLE in 2013. In accordance with the ARTCLA, Silex will be entitled to a perpetual royalty between 7 – 12% on revenues generated by GLE from any future use of the SILEX technology, including the Paducah commercial plant opportunity. In addition, further milestone payments of US\$20m will also be payable to Silex in the event the SILEX technology is commercialised by GLE. However, in light of the current market conditions and the slowdown of GLE's commercialisation program, the receipt of potential milestone payments and royalties remains uncertain.

The Company continues to take a cautious approach to the SILEX technology commercialisation program in line with current market conditions.

UK-based IQE Plc elected to purchase Silex subsidiary Translucent's cREO™ semiconductor material technology in early 2018, resulting in the receipt of a payment of US\$5m (in IQE shares) in September 2018. IQE's business case appears to be strengthening in several key semiconductor markets of which the cREO™ technology could be utilised in a number of emerging and fast-growing semiconductor device markets. In addition to the US\$5m payment received for the sale of the technology, a perpetual royalty 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 for the 6 years ending 31 December 2024, with the initial minimum annual royalty of US\$400,000 expected to be paid in FY2020.

The Company continues to assess alternative uses of the core SILEX laser enrichment technology and has identified some emerging and potentially attractive applications for stable isotope enrichment. The evaluation of a number of opportunities continues.

The Company's future prospects and results remain largely dependent on the outcomes of the commercialisation programs for the SILEX and cREO™ technologies, the GLE restructure and funding for the remaining commercialisation program, and a recovery in the markets for both uranium and enrichment services.

Business strategies and future prospects

The SILEX Technology

The Company's strategic focus is on the commercialisation of our core asset, the SILEX laser-based uranium enrichment technology in collaboration with exclusive Licensee GLE. Whilst we remain cautious with regard to the timing of a recovery in the markets for nuclear fuel, we continue to believe that the third-generation SILEX uranium enrichment technology has significant potential as a key component of the nuclear fuel cycle and will be well placed to participate in meeting the demands of fuelling the world's nuclear power industry in the future. This includes fuel for the existing fleet of conventional nuclear power reactors and the emerging Small Modular Reactor (SMR) technologies. Fundamental to the execution of our strategy, are the following:

- increasing Silex's involvement in the SILEX technology commercialisation program through the GLE restructure;
- continuing to build our relationship with Cameco, one of the world's largest uranium and nuclear fuel suppliers;
- strengthening our presence in the US, the primary target market for deployment of the SILEX technology;
- preserving the 2016 GLE-DOE Sales Agreement which underpins the proposed Paducah commercial plant project;
- retaining our talent and maintaining our Sydney facility as a centre of innovation; and
- focusing on effective cost management to ensure the most efficient use of cash reserves.

The SILEX technology represents a unique third-generation laser-based solution for production of two key components of nuclear power reactor fuel:

- natural grade uranium via the re-enrichment of tails inventories (i.e. the Paducah commercial plant project); and
- enriched uranium for use as fuel in today's conventional nuclear power reactors - in the form of low enriched uranium (LEU), as well as customised fuel for the next generation fleet of SMRs - in the form of high assay LEU.

Ultimately, the future of the technology and likelihood of success in the remaining commercialisation program is intrinsically tied to a recovery in the global markets for natural and enriched uranium and to successfully completing the GLE restructure.

Status of Nuclear Fuel Markets

Market conditions in the nuclear fuel industry are expected to remain challenging for some time. The ongoing delays to the restart of the Japanese nuclear fleet, the premature retirement of plants in the US, Japan and Europe and ongoing energy policy debates in numerous countries continue to have an impact on the nuclear fuel markets. As a result, the short to medium-term demand for uranium and enrichment remains low and prices continue to remain depressed. However, the long-term value proposition for nuclear energy and its fuel markets remains positive. There are many countries which have prioritised government policy initiatives relating to climate change and energy security stating that nuclear should form a meaningful part of their energy mix in the future.

According to the World Nuclear Association, there are currently 444 operable nuclear reactors today, and 54 nuclear reactors under construction. The US is the world's largest producer of nuclear power, with 97 operable reactors accounting for more than 30% of worldwide nuclear generation of electricity. China is the fastest growing nuclear energy market, with 47 reactors in operation, 11 reactors under construction and a pipeline of over 200 proposed reactors for construction. In addition, there is the potential for commercialisation of next-generation SMRs – which may offer significant advantages over large conventional nuclear power reactors. SMRs have the potential to be cheaper and simpler to construct, and as a producer of base load generation to compete favourably with intermittent distributed generation such as solar and wind. There are currently numerous SMR development programs advancing around the world.

Whilst challenges remain in the short to medium-term for the nuclear power industry and its fuel markets, a more positive outlook remains for the long-term. Accordingly we believe the supply and demand fundamentals in nuclear fuel markets will recover in the coming years.

DIRECTORS' REPORT

The cREO™ Technology

In March 2018, IQE Plc (AIM: IQE) elected to purchase the cREO™ technology, in accordance with the 2015 License and Assignment Agreement signed between Translucent and IQE. A payment of US\$5m was received in September 2018 (in IQE shares). In addition, minimum annual royalties are due for the 6 years ending 31 December 2024, with the initial minimum annual royalty of US\$400,000 expected to be paid in FY2020. IQE remains committed to the cREO™ commercialisation program and the plan to utilise the technology in several key global advanced semiconductor wafer product markets.

Stable Isotopes

We view a potential stable isotope program as a way of utilising our significant laser isotope separation expertise in nearer term commercial opportunities. The Company continues to assess alternative uses of the SILEX technology and in particular the assessment of potentially attractive applications for stable isotope production. The evaluation of a number of opportunities is being conducted after which the Company will consider the merits of supporting a focused program to enhance the value of the Company's IP portfolio.

Outlook

The Company's future prospects and results will remain largely dependent on the outcomes of the commercialisation programs for the SILEX and cREO™ technologies; the future of GLE and the Paducah opportunity; the availability of funding for the remaining commercialisation programs; and a recovery in the markets for both uranium and enrichment services.

DIRECTORS' REPORT

9. INFORMATION ON DIRECTORS

a) Directors' profiles

The following information is current as at the date of this report:

Mr Craig Roy MBA, MSc, FAICD. <i>Chair – Independent non-executive director</i>		
Experience and expertise	Independent non-executive director and Chair since January 2019. Former Deputy CEO of the CSIRO. Extensive experience as a company director and is currently a Non-executive Director of Sydney Water and Chair of the Australian Research Data Commons.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of the Board Member of Audit Committee Chair of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	150,000
	Options over ordinary shares – Silex Systems Limited	Nil
Dr Michael Goldsworthy BSc (Hons), MSc, PhD, FAIP, GAICD. <i>Chief Executive Officer/Managing Director</i>		
Experience and expertise	CEO/MD for twenty-seven years. Founder of the Company and co-inventor of the SILEX uranium enrichment technology.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chief Executive Officer / Managing Director	
Interests in shares and options	Ordinary shares – Silex Systems Limited	5,979,055
	Options over ordinary shares – Silex Systems Limited	Nil
Ms Melissa Holzberger LLM, Dip Intl Nuclear Law, LLB, BA, GDLP, FGIA, GAICD. <i>Independent non-executive director</i>		
Experience and expertise	Independent non-executive director since January 2019. Experienced company director, commercial lawyer and international nuclear law specialist. Founder and principal of the firm Sloan Holzberger Lawyers and is a member of the Federal Government's Australian Radiation Protection and Nuclear Safety Agency's (ARPANSA) Radiation Health and Safety Advisory Council.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of Audit Committee Member of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	27,777
	Options over ordinary shares – Silex Systems Limited	Nil

DIRECTORS' REPORT

Mr Christopher Wilks BComm, FAICD.

Non-executive director

Experience and expertise	Non-executive director for thirty-one years. Finance director and CFO of Sonic Healthcare Limited. Various directorships of public companies held over the years.	
Other current listed company directorships	Executive director of Sonic Healthcare Limited since 1989 (Finance director since 1993)	
Former listed company directorships in last 3 years	None	
Special responsibilities	Member of Audit Committee Member of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	2,814,021
	Options over ordinary shares – Silex Systems Limited	Nil

The following directors are former directors of the Silex Board:

Dr Lisa McIntyre BSc (Hons), PhD, GAICD.

Chair – Independent non-executive director. Resigned 31 December 2018.

Experience and expertise	Independent non-executive director for 6.5 years and Chair for 4.5 years. Extensive experience as a Company Director. Executive career in strategy, commercialisation and performance support as a senior partner of global strategy firm L.E.K. Consulting for 20 years.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	Non-executive director of Cover-More Group Limited from November 2013 to April 2017	
Special responsibilities	Chair of the Board (until 31 December 2018) Member of Audit Committee (until 31 December 2018) Chair of People & Remuneration Committee (until 31 December 2018)	
Interests in shares and options	Ordinary shares – Silex Systems Limited (as at 31 December 2018)	48,230
	Options over ordinary shares – Silex Systems Limited	Nil

Mr Robert Lee BSc MBA, GAICD.

Independent non-executive director. Resigned 31 December 2018.

Experience and expertise	Independent non-executive director for 3.5 years. Experienced company director, corporate adviser and former Executive Director of Macquarie Group Limited.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of Audit Committee (until 31 December 2018) Member of People & Remuneration Committee (until 31 December 2018)	
Interests in shares and options	Ordinary shares – Silex Systems Limited (as at 31 December 2018)	Nil
	Options over ordinary shares – Silex Systems Limited	Nil

DIRECTORS' REPORT

10. MEETINGS

The number of directors' meetings held during the financial year and the number of meetings attended by each director are set out in the following table:

Director's name	Directors' Meetings		Audit Committee Meetings		People & Remuneration Committee Meetings	
	Number Held ¹	Number Attended	Number Held ¹	Number Attended	Number Held ¹	Number Attended
Mr C A Roy*	7	7	2	2	1	1
Dr M P Goldsworthy	14	14	▲	▲	▲	▲
Ms M K Holzberger*	7	7	2	2	1	1
Mr C D Wilks	14	14	4	4	1	1
Former Directors						
Dr L M McIntyre**	7	7	2	2	–	–
Mr R A R Lee**	7	7	2	2	–	–

1. Number of meetings held during the time the director held office or was a member of the committee during the year

▲ Not a member of the relevant committee at the time the scheduled meetings were held

* From appointment on 1 January 2019

** Until retirement on 31 December 2018

DIRECTORS' REPORT

11. REMUNERATION REPORT

We are pleased to present to you the FY2019 Silex Systems Limited Remuneration Report, for which we seek your support at our Annual General Meeting in November 2019. The details of the remuneration received by the Company's Key Management Personnel (KMP) are prepared in accordance with accounting standards, legislative requirements and best practice corporate governance guidance.

As a result of the restructure of the Silex Board and People & Remuneration Committee in January 2019, we took the opportunity to conduct a review of the Company's remuneration strategy, policy and framework, and executive KMP remuneration. The Committee is responsible for making remuneration recommendations to the Silex Board for approval.

Our remuneration strategy has the following objectives:

- attract, motivate and retain highly qualified and specialised personnel;
- alignment of remuneration outcomes with the successful delivery of the Company's strategy; and
- align the interests of our directors and executive KMP with Silex's shareholders.

As detailed in this report, we are pleased that all members of the Silex Board and KMP now hold shares in the Company. The Committee and the Board also believe equity-based compensation is important to reduce pressure on our cashflow and to motivate employees to align their interests with those of our shareholders to drive outcomes in the longer term. We were therefore pleased to reintroduce an Employee Incentive Plan (EIP) for all employees in May 2019. All staff are entitled to participate in employee share and option arrangements and the EIP provides the opportunity to receive equity-based compensation to drive performance and to incentivise retention. The new EIP allows us to use a variety of equity awards, vesting criteria, eligibility and key performance indicators as may be appropriate from time to time.

We invite you to review the full remuneration report and we look forward to answering any questions you may have at our Annual General Meeting in November 2019.



Craig Roy

Chair, People & Remuneration Committee

DIRECTORS' REPORT

The Directors present the Remuneration Report for the year ended 30 June 2019, outlining key aspects of our remuneration policy and framework, and remuneration awarded for the Company's non-executive directors, executive directors and other executive Key Management Personnel (KMP).

The report contains the following sections:

- a) Directors and KMP disclosed in this report
- b) Remuneration governance
- c) Linking remuneration structure to Company performance
- d) Voting at the Company's 2018 Annual General Meeting
- e) Executive KMP remuneration structure
- f) Link between FY2019 remuneration and performance
- g) Contractual arrangements with executive KMPs
- h) Non-executive directors' remuneration arrangements
- i) Directors' and KMP remuneration
- j) Performance based remuneration granted and forfeited during the year

a) Directors and KMP disclosed in this report

The 2019 Remuneration Report has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001* and accounting standard requirements and applies to KMP of the Company. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Company.

Name	Position
Non-executive and executive directors	
Mr C A Roy (from 1 January 2019)	Chair and Non-executive director
Dr M P Goldsworthy	CEO/Managing Director – Executive director
Ms M K Holzberger (from 1 January 2019)	Non-executive director
Mr C D Wilks	Non-executive director
Former Non-executive directors	
Dr L M McIntyre (until 31 December 2018)	Chair and Non-executive director
Mr R A R Lee (until 31 December 2018)	Non-executive director
Other executive KMP	
Ms J E Ducie	CFO/Company Secretary

b) Remuneration governance

Board oversight

The Silex Board is ultimately responsible for ensuring that the Company's remuneration structure is equitable and aligned with the long-term interests of shareholders. The Board and its advisors are independent of Management when making decisions affecting employee remuneration.

DIRECTORS' REPORT

People & Remuneration Committee structure

The People & Remuneration Committee is a committee of the Board comprised of a majority of independent non-executive directors. The Chair of the committee is also an independent non-executive director. Its role is to make recommendations to the Board regarding the Company's remuneration policies and practices, including those applicable to the Company's KMP.

Members of the People & Remuneration Committee as at the 30 June 2019 were as follows:

Committee members	Mr C A Roy – Chair Ms M K Holzberger Mr C D Wilks
Committee secretary	Ms J E Ducie
Number of meetings in FY2019	1
Other individuals who regularly attended meetings	Dr M P Goldsworthy – CEO/MD

The role of the People & Remuneration Committee is to:

- Review and recommend to the Board the appropriate remuneration policies and practices that are competitive and reasonable for the Company and its specific application to KMP, as well as the general application to all employees;
- Determine and recommend remuneration levels of the CEO/MD and CFO/Company Secretary for Board approval;
- Manage the incentive plans which apply to executive directors and senior executives (the executive team), including key performance indicators and performance hurdles; and
- Review and make recommendations to the Board regarding the remuneration of non-executive directors.

The role and responsibilities of the People & Remuneration Committee are set out in the People & Remuneration Committee Charter, which is available on the Company's website at www.silex.com.au/Corporate-Governance.

The Company did not engage remuneration consultants during FY2019. The Company accesses market data and industry remuneration surveys and reports on a regular basis.

c) Linking remuneration structure to Company performance

Remuneration strategy, policy and framework

In determining executive KMP remuneration, the Board's policy is based on the principle of aligning remuneration outcomes with the successful delivery of strategy whilst ensuring our remuneration practices are designed to attract, motivate and retain highly qualified and specialised personnel. High regard for contemporary market practice, good governance and alignment to changing business circumstances is maintained at all times. The Company aims to reward executive KMP with a level and mix of remuneration commensurate with their position and responsibilities within the Company that is competitive within the market.

Remuneration for executive KMP is reviewed annually and considers market data, insights into remuneration trends, the performance of the Company and the individual, and the broader economic and operating environment. This review may be conducted in consultation with independent remuneration consultants where appropriate.

Following a detailed review of executive KMP remuneration during the second half of FY2019, the Board resolved to reinstate at-risk Long-term incentives (LTIs) for the CEO/MD and CFO/Company Secretary. Given our executive KMP's ability to influence outcomes, a transition will be made over the coming years to set a greater portion of their overall remuneration packages 'at risk' and using equity-based incentives. The Board was conscious of the need to effectively manage cashflow, and the LTI was structured to utilise equity to ensure this outcome.

DIRECTORS' REPORT

The STI for the CFO/Company Secretary was also restructured as part of the review. With respect to FY2019, a \$60,000 time-based retainer that expired on 31 December 2018 was awarded and paid in May 2019. An additional \$45,000 maximum STI opportunity was put in place in May, and is tied to specific business and performance outcomes with the performance period expiring in December 2019. In addition, it was agreed that a reduced maximum STI of \$20,000 will be offered to the CFO/Company Secretary for FY2020. Given the long-term strategic contribution of our CEO/MD and the decision to proceed with an equity-based LTI (subject to shareholder approval), the Board deemed it not appropriate for him to be offered a STI.

The executive KMP remuneration framework will comprise two components:

- Total fixed remuneration; and
- At-risk incentives.

Element	Purpose	Performance Metrics	Potential Value
Total Fixed Remuneration (TFR)	Provide competitive market salary, including superannuation and non-monetary benefits.	Reference to role, market and experience.	Positioned at median market rate.
STI*	Reward for in-year performance	Performance may be linked to financial metrics such as cash flow management and to non-financial measures, such as commercial deliverables, and other specific operational and strategic deliverables for the Company.	CEO: N/A CFO: \$105,000 for the 18-month period 1 July 2018 to 31 December 2019 CFO: \$20,000 for FY2020
LTI*	Alignment to long-term shareholder value	Performance linked to contribution to the creation of shareholder value over the longer term.	CEO: Potential award of 100,000 options subject to shareholder approval at the 2019 AGM CFO: 100,000 options issued in May 2019. Potential value of options issued to CFO: \$16,350

* At all times the Board has the discretion to make a final determination based on share price performance or other factors. Incentive awards may be clawed back if the relevant executive acts fraudulently or dishonestly or breaches their obligations to the Company.

Assessing performance and claw-back of remuneration

The People & Remuneration Committee is responsible for assessing performance against KPIs and determining the incentive awards to be paid to all senior management. To assist in this assessment, the Committee receives detailed reports on performance from Management which are based on independently verifiable data such as financial measures, market information and data from independently run surveys. At all times, the Board has the discretion to make a final determination.

In the unlikely event of serious misconduct or a material misstatement in the Company's financial statements the Board can cancel or defer performance-based remuneration and may also claw back performance-based remuneration paid in previous financial years.

d) Voting at the Company's 2018 Annual General Meeting

Silex Systems Limited received more than 98% of "yes" votes on its Remuneration Report for the 2018 financial year.

DIRECTORS' REPORT

e) Executive KMP remuneration structure

A detailed review of the structure of executive KMP remuneration was completed in 2H FY2019. The resulting remuneration structure is as follows:

	CEO/MD	CFO/Company Secretary
Total Fixed Remuneration (TFR)		
Composition	Base salary, superannuation and packaged motor vehicle benefits	Base salary and superannuation
Assessment	Based on responsibilities, performance and market data	Based on responsibilities, performance and market data
At risk	No	No
Maximum Short-Term Incentive Plan Opportunity		
Composition	Nil	STI restructured in FY2019 and maximum value of STI set at \$105,000 for an 18-month performance period expiring in December 2019. Awards may be paid in cash or by the issue of restricted Silex Systems Limited ordinary shares. For FY2020, the maximum STI opportunity has been decreased to \$20,000.
Assessment	N/A	The KPIs comprises a retention objective and the achievement of strategic and commercial performance measures.
Board discretion	N/A	The Board has discretion to adjust remuneration outcomes up or down to prevent any inappropriate reward outcomes, including reducing (down to zero, if appropriate) any STI award.
Other Long-Term Incentives		
Composition	An equity-based LTI may be granted annually at the discretion of the Board. At the present time, the LTI is intended to comprise an annual grant of options.	An equity-based LTI may be granted annually at the discretion of the Board. At the present time, the LTI is intended to comprise an annual grant of options.
Opportunity	Issue of 100,000 options.	Issue of 100,000 options.
Assessment	The annual equity-based LTI will have a 3-year vesting period and may have performance criteria in accordance with current strategic objectives of the Company. The FY2019 equity-based LTI grant is subject to shareholder approval at the AGM. In the event shareholder approval is received for the LTI grant, and the options are eligible to be exercised, any resulting allotment of Silex Systems Limited shares will be subject to a further escrow period of 2 years.	The annual equity-based LTI will have a 3-year vesting period and may have performance criteria in accordance with current strategic objectives of the Company. Any resulting allotment of Silex Systems Limited shares will be subject to a further escrow period of 2 years.
Exercise price	Should shareholder approval be received for the FY2019 grant, the options' exercise price will be \$0.35. This exercise price was determined based on the volume weighted average price at which the Company's shares were traded on the Australian Stock Exchange for the 10-trading days preceding the issue of options to staff in accordance with the EIP in May 2019.	The options' exercise price is determined based on the volume weighted average price at which the Company's shares are traded on the Australian Stock Exchange for the 10-trading days preceding the grant date. For the May 2019 issue of options, the exercise price is \$0.35.
Forfeiture and termination	Options will lapse if performance conditions are not met. Options will be forfeited on cessation of employment unless the Board determines otherwise.	Options will lapse if performance conditions are not met. Options will be forfeited on cessation of employment unless the Board determines otherwise.

DIRECTORS' REPORT

TFR is comprised of base salary, superannuation and packaged benefits. TFR is reviewed annually, or on promotion. It is benchmarked against market data for comparable roles in companies in a similar industry and with similar market capitalisation. The Committee aims to position executives at or near the median, with flexibility to take into account capability, experience, and value to the organisation and performance of the individual. For FY2019, the TFR for our CEO/MD and CFO/Company Secretary remained unchanged.

f) Link between FY2019 remuneration and performance

FY2019 performance and impact on remuneration

The Company restructured executive KMP remuneration during FY2019 with the reinstatement of incentives. The changes will not be fully implemented until FY2020.

Statutory performance indicators

We aim to align executive KMP remuneration to our strategic and business objectives and the creation of shareholder wealth. The below table shows measures of the Company's financial performance over the last five years as required by the *Corporations Act 2001*. However, as a pre-revenue company, the below measures are generally not the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there is only a partial correlation between the statutory key performance measures and the variable remuneration awarded.

Year ended 30 June	EPS Cents	Total STI awards to KMP \$	Share price at 30 June \$
2015	(21.1)	322,400	0.46
2016	(2.0)	211,000	0.31
2017	(5.9)	12,500	0.37
2018	(2.7)	N/A	0.20
2019	(3.0)	60,000	0.40

g) Contractual arrangements with executive KMPs

Component	CEO/MD	CFO/Company Secretary
Total Fixed Remuneration	\$550,000	\$325,000
Contract duration	Ongoing Common Law Contract	Ongoing Common Law Contract
Notice by the individual or Company	6 months	6 months
Termination of employment (without cause)	Partial payment for pro-rata STI, if applicable, may be at Board discretion Unvested LTI may remain on foot subject to achievement of the performance criteria at the original date of testing Payment of Long Service Leave accrued prior to 31 December 2014 at pre-1 January 2015 TFR of \$800,000. Long Service Leave accrued after 1 January 2015 will be payable as per statutory requirements	Partial payment for pro-rata STI, if applicable, may be at Board discretion Unvested LTI may remain on foot subject to achievement of the performance criteria at the original date of testing
Termination of employment (with cause) or by the individual	STI is not awarded and all unvested LTI will lapse Vested and unexercised LTI may be exercised following termination at Board discretion	STI is not awarded, and all unvested LTI will lapse Vested and unexercised LTI may be exercised following termination at Board discretion

DIRECTORS' REPORT

h) Non-executive directors' remuneration arrangements

Non-executive directors receive a directors' fee. They do not receive performance-based pay or retirement allowances. The fees are exclusive of superannuation.

The aggregate non-executive directors' fees are reviewed periodically by the Board taking into account comparable roles and market data. The non-executive directors' fees remain well within the limits of the shareholder approved aggregate directors' fee pool maximum of \$750,000, as approved by shareholders at the 2011 AGM. The Silex Board currently comprises three non-executive directors and an executive director. Given the current circumstances of the Company, the Board has decided not to award non-executive directors committee fees at this time. This situation is periodically reviewed. Additional fees may be payable to non-executive directors should they undertake specific consulting projects for the Company in the areas of their expertise. No additional fees were paid for additional services and consulting rendered during FY2019.

The current fee structure is outlined below:

	Chair	Member
Board	100,000	80,000
Committee	–	–

DIRECTORS' REPORT

i) Directors' and KMP remuneration

The table below has been prepared in accordance with the requirements of the *Corporations Act 2001* and relevant accounting regulations in Australia. This table details the remuneration for the Company's KMP for the current and previous financial year.

Name	Year	Fixed remuneration				Variable remuneration		Total \$
		Cash salary and fees* \$	Non-monetary benefits* \$	Annual and Long service leave** \$	Post-employment benefits – super-annuation \$	Cash bonus* \$	Options*** \$	
Executive directors								
Dr M P Goldsworthy	2019	522,275	6,737	4,195	23,731	–	741	557,679
	2018	521,206	7,222	55,829	21,249	–	–	605,506
Non-executive directors (NED)								
Mr C A Roy (from 1/1/2019)	2019	50,000	–	–	4,750	–	–	54,750
	2018	–	–	–	–	–	–	–
Ms M K Holzberger (from 1/1/2019)	2019	40,000	–	–	3,800	–	–	43,800
	2018	–	–	–	–	–	–	–
Mr C D Wilks	2019	80,000	–	–	7,600	–	–	87,600
	2018	80,000	–	–	7,600	–	–	87,600
Former Directors								
Dr L M McIntyre (until 31/12/2018)	2019	50,000	–	–	4,750	–	–	54,750
	2018	100,000	–	–	9,500	–	–	109,500
Mr R A R Lee (until 31/12/2018)	2019	40,000	–	–	3,800	–	–	43,800
	2018	80,000	–	–	7,600	–	–	87,600
Other Executive KMP								
Ms J E Ducie	2019	300,569	–	12,002	24,431	60,000	581	397,583
	2018	302,551	–	(1,067)	22,449	–	–	323,933
Total executive directors and other KMP	2019	822,844	6,737	16,197	48,162	60,000	1,322	955,262
	2018	823,757	7,222	54,762	43,698	–	–	929,439
Total NED remuneration	2019	260,000	–	–	24,700	–	–	284,700
	2018	260,000	–	–	24,700	–	–	284,700
Total KMP remuneration	2019	1,082,844	6,737	16,197	72,862	60,000	1,322	1,239,962
	2018	1,083,757	7,222	54,762	68,398	–	–	1,214,139

* Short-term benefits as per *Corporations Regulations 2M 3.03(1) Item 6*.

** Other long-term benefits as per *Corporations Regulations 2M 3.03(1) Item 8*; Amount for Dr M P Goldsworthy for 2018 includes a correction to the Long Service Leave accrual to reflect the preservation of his pre-1 January 2015 Long Service Leave entitlement at his pre-1 January 2015 TFR of \$800,000. In the event Long Service Leave is taken in the ordinary course of business, payment for leave will be as per statutory requirements.

*** Equity-settled share-based payments as per *Corporations Regulations 2M.3.03(1) Item 11*.

DIRECTORS' REPORT

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk – LTI	
	2019	2018	2019	2018	2019*	2018
Directors						
Mr C A Roy	100.0%	N/A	N/A	N/A	N/A	N/A
Dr M P Goldsworthy	99.9%	100.0%	N/A	N/A	0.1%	N/A
Ms M K Holzberger	100.0%	N/A	N/A	N/A	N/A	N/A
Mr C D Wilks	100.0%	100.0%	N/A	N/A	N/A	N/A
Former Directors						
Dr L M McIntyre	100.0%	100.0%	N/A	N/A	N/A	N/A
Mr R A R Lee	100.0%	100.0%	N/A	N/A	N/A	N/A
Other Executive KMP						
Ms J E Ducie	84.8%	100.0%	15.1%	N/A	0.1%	N/A

* Equity-settled share-based payments as per Corporations Regulations 2M.3.03(1) Item 11; At risk LTI for Dr M P Goldsworthy is subject to shareholder approval at the 2019 AGM.

j) Performance-based remuneration granted and forfeited during the year

Name	Total STI			LTI (Options)	
	Total opportunity \$	Awarded %	Forfeited %	Value granted** \$	Value exercised \$
Dr M P Goldsworthy	-	-	-	-	-
Ms J E Ducie*	105,000	57.1%	-	16,350	-

* Performance criteria for \$45,000 of Total opportunity expires 31 December 2019.

**The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.

The FY2019 STI for the CFO/Company Secretary was restructured to include a \$60,000 time-based retainer that expired on 31 December 2018 and was subsequently awarded and paid in May 2019. An additional \$45,000 maximum STI opportunity was put in place in May 2019 with a performance period expiring in December 2019. In addition, it was agreed that a reduced maximum STI of \$20,000 will be offered to the CFO/Company Secretary for FY2020. Given the long-term strategic contribution of our CEO/MD and the proposed offer of an equity-based LTI – the Board deemed it not appropriate for him to be offered a STI.

LTI – Options

The terms and conditions the grant of options affecting remuneration in the current reporting period are as follows:

Grant Date	Vesting and exercise date	Expiry date	Exercise price \$	Value per option at grant date \$	Performance achieved	Vested %
21/05/19	20/05/22	20/05/24	0.35	0.1635	To be determined	N/A

The number of options over ordinary shares in the Company provided as remuneration to executive KMP is shown below. The options carry no dividend or voting rights.

DIRECTORS' REPORT

When exercisable, each option is convertible into one ordinary share of Silex Systems Limited. The exercise price is determined based on the volume weighted average price at which the Company's shares are traded on the Australian Stock Exchange for the 10-trading days preceding the grant date. There were no options exercised by any individual during FY2019 (or FY2018).

The potential grant of options to our CEO/MD is subject to shareholder approval at the 2019 AGM. If granted, details will be provided to the ASX and included in the Remuneration Report for the year ending 30 June 2020.

Options held by KMP

Name and grant date	Balance at the start of the year	Granted as compensation	Vested		Exercised	Other changes	Balance at end of year	
			Number	%			Vested and exercisable	Unvested
Ms J E Ducie - 21 May 2019	-	100,000	-	-	-	-	-	100,000

Shares held by KMP

The below table shows the number of ordinary shares in the Company that were held during the financial year by KMP of the Company, including by entities related to them:

Name	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to shares	Other changes during the year	Balance at the end of the year
Directors					
Mr C A Roy	N/A	-	-	150,000	150,000
Dr M P Goldsworthy	5,979,055	-	-	-	5,979,055
Ms M K Holzberger	N/A	-	-	27,777	27,777
Mr C D Wilks	2,814,021	-	-	-	2,814,021
Former Directors					
Dr L M McIntyre*	48,230	-	-	-	N/A
Mr R A R Lee*	-	-	-	-	N/A
Other Executive KMP					
Ms J E Ducie	3,759	-	-	16,241	20,000

* This information relates to the period these individuals were Directors.

Securities Trading Policy

The Silex Securities Trading Policy applies to all staff including KMP. It prohibits staff from buying or selling Silex securities at times when they are in possession of inside information. In addition, staff are only permitted to trade in Silex securities during certain open periods. The Silex Securities Trading Policy is available on the Company's website at www.silex.com.au/Corporate-Governance.

DIRECTORS' REPORT

12. SHARES UNDER OPTION

Unissued ordinary shares of Silex Systems Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
21/05/2019*	20/05/2024	\$0.35	500,000

* Included in these options granted were options granted as remuneration to KMP.

No option holder has any right under the options to participate in any other share issue of the Company or any other entity. No options were granted since the end of the financial year. No options were exercised during the year.

13. COMPANY SECRETARY

Ms J E Ducie BBus, CA, GAICD was appointed to the position of Company secretary in 2010. Before joining Silex, Ms Ducie held a senior finance position in the Construction industry in the Middle East and prior to that worked as a Senior Associate with a Chartered Accounting Practice.

14. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has entered into agreements to indemnify the directors of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as directors or executive officers unless the liability relates to conduct involving lack of good faith. The Company has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity.

The Directors' & Officers' Liability Insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a director or executive officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow specific disclosure of the nature of the liabilities insured against or the premium paid under the policy.

15. ENVIRONMENTAL REGULATION

The parent entity is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The parent entity is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and is a licensee under the Act.

To the best of the Directors' knowledge, all environmental and health and safety regulatory requirements have been met and there have been no claims made during the financial year.

16. NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set

DIRECTORS' REPORT

out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2019 \$	2018 \$
Other assurance services		
PricewaterhouseCoopers Australian firm	-	-
Total remuneration for other assurance services	-	-
Other services		
Seminars and training courses	-	450
Total remuneration for other services	-	450
Total remuneration for non-audit services	-	450

17. AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 35.

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



Dr M P Goldsworthy
CEO/MD

Sydney, 29 August 2019



Mr C A Roy
Chair

DIRECTORS' REPORT



AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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
29 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757

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CORPORATE GOVERNANCE STATEMENT

Silex Systems Limited (the Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council. The 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations were released in February 2019 and the Company intends implementing the recommendations during the year ending 30 June 2020. The Company is already compliant with a number of the new principles and recommendations contained in the 4th Edition.

The 2019 Corporate Governance Statement is dated as at 30 June 2019 and reflects the corporate governance practices in place throughout the 2019 financial year. The 2019 Corporate Governance Statement was approved by the Board and lodged with the ASX Appendix 4G, on 29 August 2019. A description of the Company's current corporate governance practices is set out in the Company's Corporate Governance Statement which can be viewed at

www.silex.com.au/Corporate-Governance.

CONCISE FINANCIAL REPORT

for the year ended 30 June 2019

CONTENTS

FINANCIAL STATEMENTS

Consolidated income statement	38
Consolidated statement of comprehensive income	39
Consolidated balance sheet	40
Consolidated statement of changes in equity	41
Consolidated statement of cash flows	42
Notes to the financial statements	43
Directors' declaration	48
Independent auditor's report to the members	49
Shareholders' information	51

Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2019. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Silex Systems Limited and its subsidiaries as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to members on request, free of charge. Please call **+61 2 9704 8888** and request a copy of the full financial report (or email enquiries@silex.com.au). Alternatively, you can access both the full financial report and the concise report via the internet on our website: www.silex.com.au.



SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES

ABN 69 003 372 067

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2019

	Note	2019 \$	2018 \$
Interest revenue	3	744,560	971,452
Other revenue	3	–	88,843
Revenue from continuing operations		744,560	1,060,295
Other income	4	1,582,190	7,552,662
Research and development materials		(240,153)	(382,999)
Development expenditure		(1,984,328)	(5,799,314)
Finance costs		(7)	(8)
Depreciation and amortisation expense		(52,746)	(40,650)
Employee benefits expense		(3,614,476)	(3,866,174)
Consultants and professional fees		(680,867)	(2,066,401)
Printing, postage, freight, stationery and communications		(63,131)	(80,977)
Rent, utilities and property outgoings		(394,392)	(419,164)
Net impairment losses		(8,553)	–
Other expenses from continuing activities		(441,205)	(536,651)
(Loss) before income tax expense		(5,153,108)	(4,579,381)
Income tax expense		–	–
Net (loss) from continuing operations		(5,153,108)	(4,579,381)
Net (loss) for the year		(5,153,108)	(4,579,381)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(5,153,108)	(4,579,381)

	Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	(3.0)	(2.7)
Diluted earnings per share	(3.0)	(2.7)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		
Basic earnings per share	(3.0)	(2.7)
Diluted earnings per share	(3.0)	(2.7)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2019

	2019 \$	2018 \$
Net (loss) for the year	(5,153,108)	(4,579,381)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	–	1,799,643
Exchange differences on translation of foreign operations	868,845	583,591
<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	(6,766,261)	–
Other comprehensive income for the year, net of tax	(5,897,416)	2,383,234
Total comprehensive income for the year	(11,050,524)	(2,196,147)
Attributable to:		
Owners of Silex Systems Limited	(11,050,524)	(2,196,147)
Total comprehensive income for the year	(11,050,524)	(2,196,147)

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2019

	30 June 2019 \$	30 June 2018 \$
Assets		
Current assets		
Cash and cash equivalents	2,653,590	2,002,145
Held to maturity investments – term deposits	–	29,851,837
Other financial assets at amortised cost – term deposits	22,200,000	–
Trade and other receivables	1,900,118	8,452,352
Other current assets	409,144	–
Available-for-sale financial assets	–	9,362,123
Financial assets at fair value through other comprehensive income	10,240,588	–
Total current assets	37,403,440	49,668,457
Non-current assets		
Property, plant and equipment	113,924	119,178
Total non-current assets	113,924	119,178
Total assets	37,517,364	49,787,635
Liabilities		
Current liabilities		
Trade and other payables	719,337	1,892,751
Provisions	745,039	695,319
Total current liabilities	1,464,376	2,588,070
Non-current liabilities		
Provisions	18,802	118,501
Total non-current liabilities	18,802	118,501
Total liabilities	1,483,178	2,706,571
Net assets	36,034,186	47,081,064
Equity		
Contributed equity	231,750,374	231,750,374
Reserves	12,127,493	18,021,263
Accumulated losses	(207,843,681)	(202,690,573)
Total equity	36,034,186	47,081,064

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2019

Attributable to owners of Silex Systems Limited				
	Contributed equity \$	Reserves \$	Accumulated losses \$	Total \$
Balance at 30 June 2017	231,750,374	15,653,086	(198,111,192)	49,292,268
Net (loss) for the year	–	–	(4,579,381)	(4,579,381)
Other comprehensive income	–	2,383,234	–	2,383,234
Total comprehensive income for the year	–	2,383,234	(4,579,381)	(2,196,147)
Transactions with owners in their capacity as owners				
Transactions with non-controlling interests	–	(15,057)	–	(15,057)
	–	(15,057)	–	(15,057)
Balance at 30 June 2018	231,750,374	18,021,263	(202,690,573)	47,081,064
Net (loss) for the year	–	–	(5,153,108)	(5,153,108)
Other comprehensive income	–	(5,897,416)	–	(5,897,416)
Total comprehensive income for the year	–	(5,897,416)	(5,153,108)	(11,050,524)
Transactions with owners in their capacity as owners				
Employee share options – value of employee services	–	3,646	–	3,646
	–	3,646	–	3,646
Balance at 30 June 2019	231,750,374	12,127,493	(207,843,681)	36,034,186

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2019

	2019 \$	2018 \$
Cash flows from operating activities		
Receipts from customers and government grants (inclusive of GST)	1,076,195	997,280
Payments to suppliers and employees (inclusive of GST)	(8,873,680)	(12,960,108)
Interest received	810,178	1,225,488
Interest paid	(7)	(8)
Net cash (outflows) from operating activities	(6,987,314)	(10,737,348)
Cash flows from investing activities		
Payment for additional interest in subsidiary	–	(15,057)
Proceeds from held to maturity investments – term deposits	–	10,950,000
Proceeds from other financial assets at amortised cost – term deposits	7,651,837	–
Payments for property, plant and equipment	(46,381)	(76,036)
Proceeds from sale of property, plant and equipment	27,273	–
Net cash inflows from investing activities	7,632,729	10,858,907
Cash flows from financing activities		
Net cash (outflows) from financing activities	–	–
Net increase in cash and cash equivalents	645,415	121,559
Cash and cash equivalents at the beginning of the financial year	2,002,145	1,876,319
Effects of exchange rate changes on cash	6,030	4,267
Cash and cash equivalents at end of the financial year*	2,653,590	2,002,145
*Term deposits excluded from Cash and cash equivalents	22,200,000	29,851,837

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

NOTE 1 SIGNIFICANT CHANGES IN THE CURRENT ACCOUNTING PERIOD

In 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 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, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals. While the new Term Sheet is primarily Non-binding, there are certain binding provisions including a 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 was retrospective to 1 September 2018. This monthly funding commitment has been incurred by Silex USA LLC.

NOTE 2 SEGMENT INFORMATION

	Silex Systems \$	Translucent \$	Silex USA \$	Total \$
2019				
Total segment revenue	790,191	959,186	–	1,749,377
Inter-segment revenue	(45,631)	(959,186)	–	(1,004,817)
Revenue from external customers	744,560	–	–	744,560
Interest revenue	744,560	–	–	744,560
Segment result	(3,545,576)	549,688	(2,157,220)	(5,153,108)
Total segment assets	26,416,466	10,882,803	218,095	37,517,364
Total segment liabilities	1,471,464	11,714	–	1,483,178
2018				
Total segment revenue	1,055,452	960,976	–	2,016,428
Inter-segment revenue	(84,000)	(872,133)	–	(956,133)
Revenue from external customers	971,452	88,843	–	1,060,295
Interest revenue	971,452	–	–	971,452
Recoverable project costs from IQE	–	88,843	–	88,843
	971,452	88,843	–	1,060,295
Segment result	(10,630,713)	6,051,332	–	(4,579,381)
Total segment assets	33,552,475	16,235,160	–	49,787,635
Total segment liabilities	2,351,235	355,336	–	2,706,571

NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

Segment result

The Board of Directors assess the performance of the operating segments based on results that excludes exchange gains and losses on intercompany loans which eliminate on consolidation. A reconciliation of the segment result to Net (loss) from continuing operations is provided as follows:

	2019 \$	2018 \$
Segment result	(5,153,108)	(4,579,381)
Net (loss) before income tax from continuing operations	(5,153,108)	(4,579,381)

NOTE 3 REVENUE FROM CONTINUING OPERATIONS

	2019 \$	2018 \$
Interest revenue	744,560	971,452
Other revenue		
Recoverable project costs from IQE	–	88,843
	–	88,843

NOTE 4 OTHER INCOME

	2019 \$	2018 \$
Research and development tax incentive	958,879	1,060,878
Profit on sale of intellectual property – sale of cREO™ technology	570,184	6,301,408
Profit on sale of property, plant and equipment	27,273	128,600
Foreign currency exchange gains (net)	25,854	61,776
	1,582,190	7,552,662

NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

NOTE 5 DIVIDENDS

No dividends were declared or paid during the year or in the prior year.

NOTE 6 CONTINGENT LIABILITIES

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 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, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals.

In the event Silex terminates the new Term Sheet (without cause), a termination fee of US\$500,000 will be payable to GEH. In the event binding transaction documentation is signed, then Silex is required to make a payment to GEH of US\$1.125 million 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 signing binding transaction documentation. Therefore, these two amounts are considered to be contingent liabilities of the Company.

NOTE 7 EVENTS OCCURRING AFTER REPORTING DATE

Between 30 June 2019 and the date of this report, the IQE Plc share price (AIM: IQE) has decreased significantly. Combined with movements in exchange rates, the value of the shares held at 30 June 2019 (disclosed as Financial assets at fair value through other comprehensive income) has decreased by approximately \$1,380,000 since 30 June 2019. 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 30 June 2019 will be recognised in the financial statements for the year ended 30 June 2020.

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 this report.

NOTE 8 BASIS OF PREPARATION

This concise financial report relates to the consolidated entity consisting of Silex Systems Limited and the entities it controlled at the end of, or during, the year ended 30 June 2019. The accounting policies have been consistently applied to all years presented, unless otherwise stated below. The financial statements in this report are presented in Australian dollars.

(a) New and amended standards adopted by the Company

Silex has applied the following standards for the first time for the annual reporting period commencing 1 July 2018:

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

Silex had to change its accounting policies following the adoption of AASB 9 and AASB 15.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

(b) Impact of changes in accounting policies on financial statements

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

	30 June 2018 as originally presented \$	Impact of AASB 9 \$	Impact of AASB 15 \$	1 July 2018 Restated \$
Balance sheet (extract)				
Current assets				
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

(c) 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 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. There was no difference between the previous carrying amount and the revised carrying amount at 1 July 2018 to be recognized in opening accumulated losses.

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 at 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2019

(d) 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).

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 revenue from these financial assets is included in revenue 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.

(e) 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. The value of prepayments at 30 June 2018 was \$152,848.

(f) 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 2015 Option, 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 for the 6 years ending 31 December 2024, with the initial minimum annual royalty payment of US\$400,000 expected to be paid in FY2020. In accordance with AASB 15, the royalties are accounted for as additional 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. The Company has elected to use the most likely method to value the amount of variable consideration. At the end of each reporting period, the Company will update its assessment of the variable consideration based on the most likely method.

DIRECTORS' DECLARATION

30 June 2019

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2019 as set out on pages 37 to 47 complies with Accounting Standard AASB 1039: Concise Financial Reports.

The concise financial report is an extract from the full financial report for the year ended 30 June 2019. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

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



Dr M P Goldsworthy
CEO/MD

Sydney, 29 August 2019



Mr C A Roy
Chair

INDEPENDENT AUDITOR'S REPORT

to the members of Silex Systems Limited



REPORT ON THE CONCISE FINANCIAL REPORT

Our opinion

In our opinion, the accompanying concise financial report of Silex Systems Limited (the Company) and its controlled entities (together the Group) for the year ended 30 June 2019 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

What we have audited

The Group concise financial report derived from the financial report of the Group for the year ended 30 June 2019 comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated income statement for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the related notes

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the concise financial report section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the concise financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Concise financial report

The concise financial report does not contain all the disclosures required by the Australian Accounting Standards in the preparation of the financial report. Reading the concise financial report and the auditor's report thereon, therefore, is not a substitute for reading the financial report and the auditor's report thereon.

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INDEPENDENT AUDITOR'S REPORT

to the members of Silex Systems Limited



The financial report and our report thereon

We expressed an unmodified audit opinion on the financial report in our report dated 29 August 2019.

That report also includes:

- The communication of key audit matters. Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period.

Responsibilities of the directors for the concise financial report

The directors are responsible for the preparation of the concise financial report in accordance with Accounting Standard AASB 1039 *Concise Financial Reports*, and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the concise financial report.

Auditor's responsibilities for the audit of the concise financial report

Our responsibility is to express an opinion on whether the concise financial report, complies in all material respects, with AASB 1039 *Concise Financial Reports* based on our procedures which were conducted in accordance with Auditing Standard ASA 810 *Engagements to Report on Summary Financial Statements*.

REPORT ON THE REMUNERATION REPORT

The following paragraphs are copies from our report on the remuneration report of Silex Systems Limited for the year ended 30 June 2019.

Our opinion on the remuneration report

We have audited the remuneration report included in pages 23 to 32 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Silex Systems Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

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

David Ronald
Partner

Sydney
29 August 2019

SHAREHOLDERS' INFORMATION

30 June 2019

1. INFORMATION RELATING TO SHAREHOLDERS AS AT 26 AUGUST 2019

(a) Distribution schedule

1–1,000	1,799
1,001–5,000	2,056
5,001–10,000	671
10,001–100,000	977
100,001 and over	204
Total number of holders of each class of security	5,707

Voting rights	– on a show of hands	
	– on a poll	
Percentage of total holding held by the largest 20 holders		47.09%
Number of total holding less than a marketable parcel of shares		2,267

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030
Mr Paul Cozzi	10,000,000

(b) Names of Twenty Largest Holders as at 26 August 2019

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.48%
Mr Paul Cozzi	10,000,000	5.87%
Majenta Holdings Pty Ltd	5,703,923	3.35%
Hillboi Nominees Pty Ltd	4,094,500	2.40%
Polly Pty Ltd	4,073,863	2.39%
Throvena Pty Ltd	2,978,203	1.75%
Hamlac Pty Ltd	2,525,937	1.48%
Mr Christopher David Wilks	2,405,070	1.41%
Morgan Stanley Australia Securities (Nominee) Pty Limited	2,041,553	1.20%
Quintal Pty Ltd	2,002,952	1.17%
Felson Holdings Pty Ltd	1,881,000	1.10%
HSBC Custody Nominees (Australia) Limited	1,818,998	1.07%
Sporran Lean Pty Ltd	1,809,999	1.06%
Deering Nominees Pty Ltd	1,460,000	0.86%
J P Morgan Nominees Australia Pty Limited	1,458,675	0.86%
BNP Paribas Nominees Pty Ltd	1,416,627	0.83%
Mr Xiangyang Wu	1,314,562	0.77%
Mr Nobuo Maeda	1,200,000	0.70%
Eugob Nominees Pty Ltd	1,168,592	0.69%
Mr Timothy Guy Lyons + Mrs Heather Mary Lyons	1,112,500	0.65%
	80,267,984	47.09%

SHAREHOLDERS' INFORMATION

30 June 2019

2. INTEREST OF DIRECTORS IN SHARES AS AT 26 AUGUST 2019

	Ordinary shares	Interest held
Mr C A Roy	150,000	Personally
Dr M P Goldsworthy	5,979,055	Personally/Beneficially
Ms M K Holzberger	27,777	Personally
Mr C D Wilks	2,814,021	Personally/Beneficially

3. SECURITIES SUBJECT TO VOLUNTARY ESCROW AS AT 26 AUGUST 2019

As at 26 August 2019, no securities were subject to voluntary escrow.

4. UNQUOTED EQUITY SECURITIES AS AT 26 AUGUST 2019

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Incentive Plan	500,000	12

COMPANY DIRECTORY

DIRECTORS

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

AUDIT COMMITTEE

Ms M K Holzberger – Chair
Mr C A Roy
Mr C D Wilks

PEOPLE & REMUNERATION COMMITTEE

Mr C A Roy – Chair
Ms M K Holzberger
Mr C D Wilks





COMPANY SECRETARY

Ms J E Ducie

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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STOCK EXCHANGE

Listed on the Australian Stock
Exchange, Ticker: SLX

Listed on the OTCQX International,
Ticker: SILXY

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Dentons Australia Limited

BANKERS

Australia and New Zealand Banking
Group Limited

AMERICAN DEPOSITORY RECEIPTS (ADR) INFORMATION

Silex Systems Limited's ADRs
may be purchased on the
US OTCQX market.

Details are as follows:
Ratio: 1 ADR = 5 ordinary shares
Symbol: SILXY
CUSIP: 827046 10 3 9414F102
Exchange: OTCQX
Country: Australia

