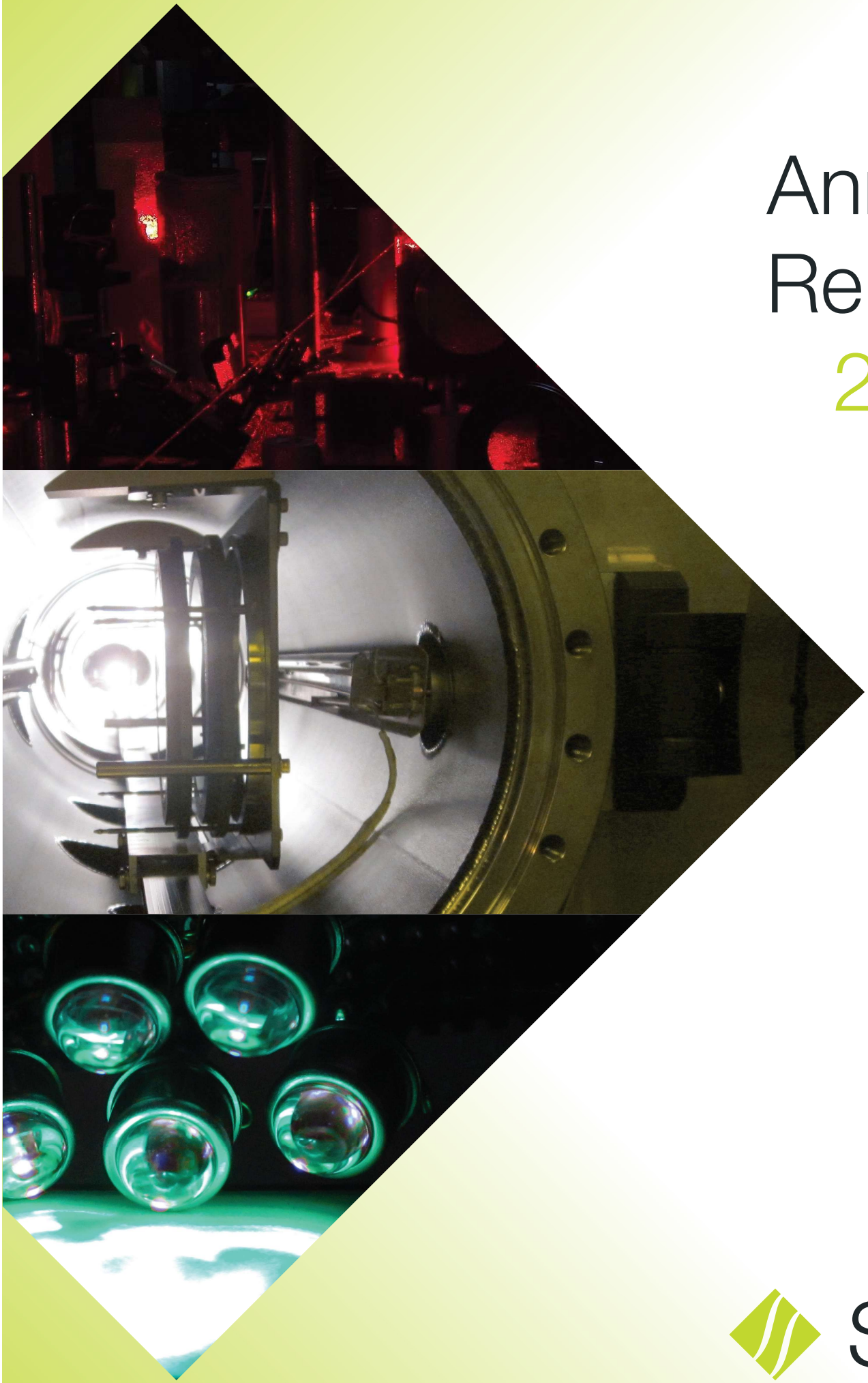

Annual Report 2020

Silex

FORWARD LOOKING STATEMENTS AND RISK FACTORS

ABOUT SILEX SYSTEMS LIMITED
(ASX: SLX) (OTCQX: SILXY)

Silex Systems Limited ABN 69 003 372 067 (Silex) is a research and development company whose primary asset is the SILEX laser enrichment technology, originally developed at the Company's technology facility in Sydney, Australia. The SILEX technology was licensed exclusively in 2006 to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA for application to uranium enrichment. GLE has been undergoing a restructure for a number of years after GE-Hitachi disclosed it was seeking to exit the venture. In view of the time the GLE restructure has taken to date and the dependency of the closing of the restructure on obtaining US Government approvals, combined with the continuing depressed nuclear fuel market conditions, plans for commercial deployment of the SILEX technology have been significantly delayed, and remain at risk.

Silex is also in the early stages of pursuing additional commercial applications of the SILEX technology, including the production of 'Zero-Spin Silicon' for the emerging technology of silicon-based quantum computing. The 'Zero-Spin Silicon' project remains dependent on the outcomes of the project and the viability of silicon quantum computing and is therefore at risk. The future of the SILEX technology is therefore highly uncertain and any plans for commercial deployment are speculative.

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

FORWARD LOOKING STATEMENTS

The commercial potential of these technologies is currently unknown. Accordingly, no guarantees as to the future performance of these technologies can be made. The nature of the statements in this Report regarding the future of the SILEX technology, the cREO™ technology and any associated commercial prospects are forward-looking and are subject to a number of variables, including but not limited to, unknown risks, contingencies and assumptions which may be beyond the control of Silex, its directors and management. You should not place reliance on any forward-looking statements as actual results could be materially different from those expressed or implied by such forward looking statements as a result of various risk factors. Further, the forward-looking statements contained in this Report involve subjective judgement and analysis and are subject to change due to management's analysis of Silex's business, changes in industry patterns, and any new or unforeseen circumstances. The Company's management believes that there are reasonable grounds to make such statements as at the date of this Report. Silex does not intend, and is not obligated, to update the forward-looking statements except to the extent required by law or the ASX Listing Rules.

RISK FACTORS

Risk factors that could affect future results and commercial prospects of Silex include, but are not limited to: ongoing economic uncertainty including concerning the COVID-19 pandemic; the outcome of the GLE restructure including obtaining US Government approvals; the results of the SILEX uranium enrichment engineering development program; the market demand for natural uranium and enriched uranium; the outcome of the project for the production of 'Zero-Spin Silicon' for the emerging technology of silicon-based quantum computing; the potential development of, or competition from alternative technologies; the potential for third party claims against the Company's ownership of Intellectual Property; the potential impact of prevailing laws or government regulations or policies in the USA, Australia or elsewhere; results from IQE's commercialisation program and the market demand for cREO™ products; and the outcomes of various strategies and projects undertaken by the Company.

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CHAIR'S REPORT

Dear Fellow Shareholders,

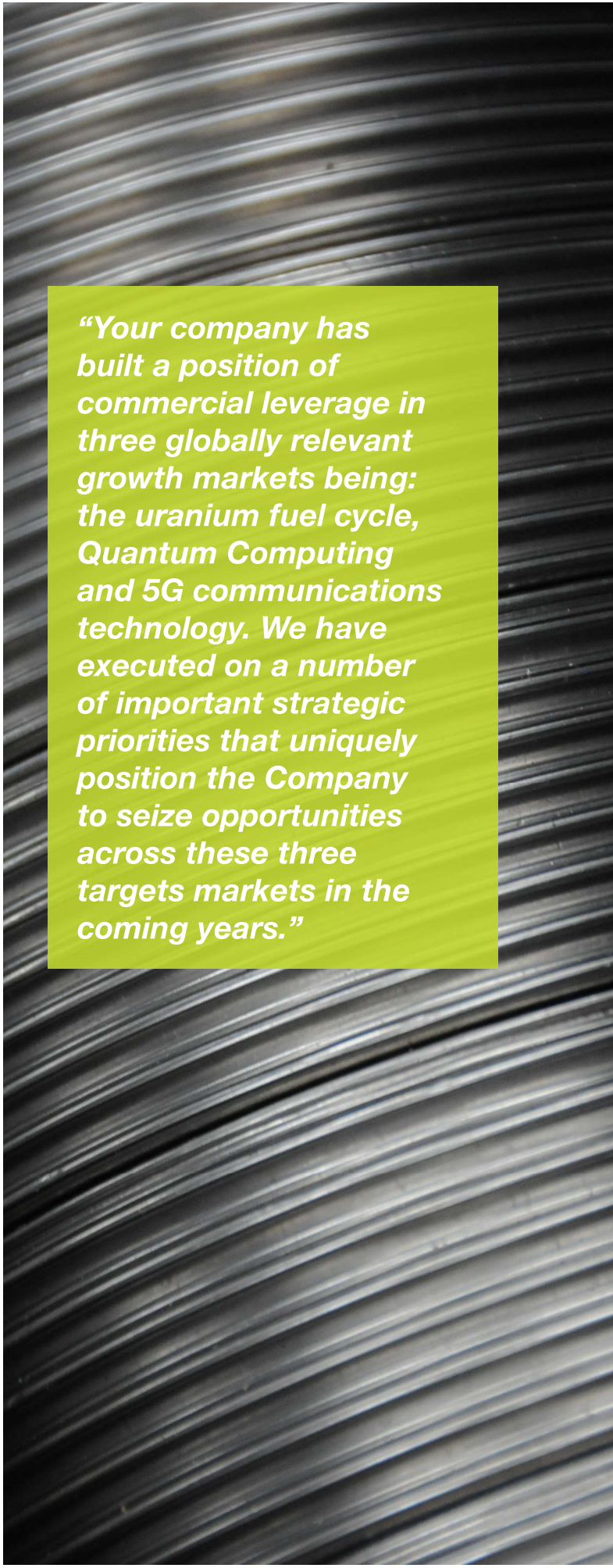
We consider the year ended 30 June 2020 a strong year for the Company despite the continued uncertainty and challenges presented by the COVID-19 pandemic. Your company has built a position of commercial leverage in three globally relevant growth markets being: the uranium fuel cycle, Quantum Computing and 5G communications technology. We have executed on a number of important strategic priorities that uniquely position the Company to seize opportunities across these three targets markets in the coming years. Our goal is to deliver long-term value to you, our shareholders, and to do this with an acute focus on risk management and prudent governance.

Key to our growth strategy is the execution of an agreement in December 2019 with GE-Hitachi and Cameco Corporation which, subject to US Government approvals, will secure Silex a unique position in the global uranium industry through the acquisition of 51% of US-based SILEX technology licensee, Global Laser Enrichment (GLE). The SILEX uranium enrichment program being conducted by Silex and GLE is underpinned by the agreement with the US Department of Energy for the Paducah, Kentucky uranium production opportunity. This large, multi-decade project could result in the SILEX technology becoming a key factor in the production of nuclear fuel for today's conventional nuclear power reactors and the next generation Small Modular Reactors.

As the global uranium market continues to recover, we look forward to playing our part in the inevitable revival of the nuclear power industry, one of the largest sources of low carbon base-load electricity in the world today.

We also diversified the utility of the SILEX technology during the year with a new application in the emerging Quantum Computing industry. In the fourth quarter of 2019, we commenced a three-year project with leading quantum computing partners, Silicon Quantum Computing Pty Ltd (SQC) and UNSW Sydney to develop Zero-Spin Silicon (ZS-Si) using a variant of the SILEX laser isotope separation technology. ZS-Si is key to the fabrication of the next generation processor chips for silicon-based quantum computers. The project is supported by $1.8 million of funding from SQC and a $3 million Federal Government funding grant from the CRC-P.

We were also pleased to receive the first minimum annual royalty payment from IQE Plc with respect to the cREO™ technology. We are encouraged by IQE's continued progress



"Your company has built a position of commercial leverage in three globally relevant growth markets being: the uranium fuel cycle, Quantum Computing and 5G communications technology. We have executed on a number of important strategic priorities that uniquely position the Company to seize opportunities across these three targets markets in the coming years."

with the development of cREO™ for 5G Handset components and the assessment of other potential routes to market for the cREO™ technology.

CORPORATE GOVERNANCE

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 commitment to strong governance principles. The Silex Board was renewed in early 2019 and currently comprises three non-executive directors from a range of professions and backgrounds together with our founder and CEO/Managing Director. The Board periodically reviews its performance and make-up to ensure it is serving the needs of the Company, our shareholders and other stakeholders. Our governance processes are also reviewed annually with a keen focus on continual improvement and best practice.

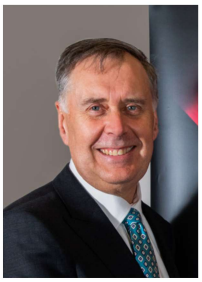
Melissa Holzberger will stand for re-election at this year's AGM, with the full support of the Board. Melissa is an astute company director who brings a great deal of nuclear industry experience, legal acumen and governance expertise to the Silex Board.

THE YEAR AHEAD

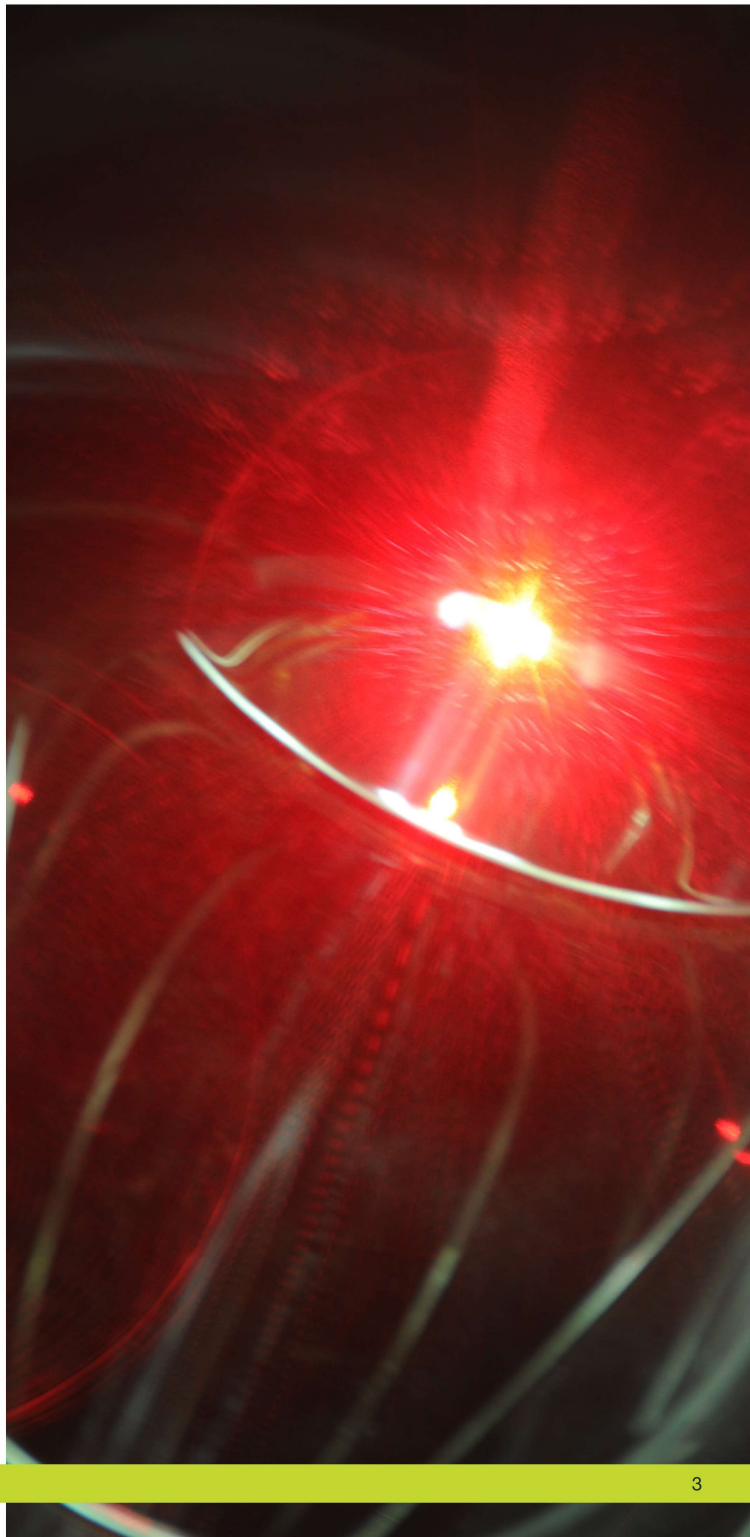
We continue to work with GLE, Cameco and the various US government agencies on the approval process and on the operational requirements to transition GLE to Silex majority ownership. We also look forward to progressing the ZS-Si project having recently successfully completed Stage One of the project. We are well positioned to capitalise on these exciting opportunities and build momentum in our commercialisation programs over the coming years.

The COVID-19 pandemic has created significant challenges around the world and we all continue to face uncertainty as the situation continues to evolve. We intend to continue with our operations to the fullest extent possible, with extreme caution and heightened concern for the safety and wellbeing of our team.

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



Craig Roy
Chair
27 August 2020



CEO'S REPORT

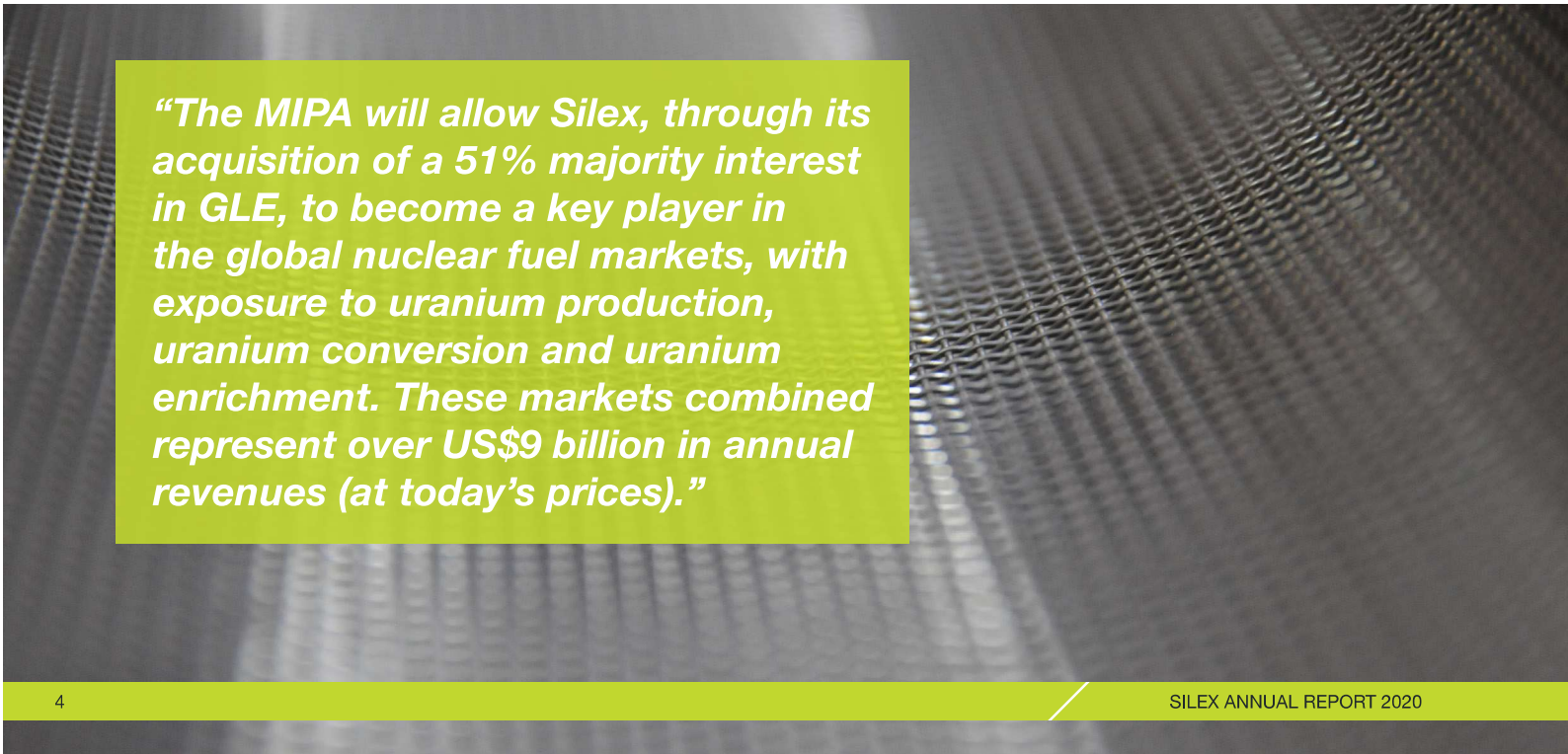
Dear Shareholders,

FY2020 was a positive and constructive year for Silex. The key highlight was the execution of a binding purchase agreement for the acquisition of a 51% interest in our SILEX uranium technology licensee, GLE. Other highlights included the commencement of a new project to develop a process for the commercial production of Zero-Spin Silicon for quantum computing technology, and the receipt of our first minimum royalty payment for the cREO™ technology, which is being commercialised by UK-based IQE Plc. These events all contribute to the rejuvenation of Silex as a global technology company, and underpin our overarching strategy to commercialise our innovative SILEX laser isotope separation technology across multiple markets.

The execution of a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco Corporation (Cameco) and GE-Hitachi Nuclear Energy (GEH) for the joint purchase of GEH's 76% interest in GLE is a pivotal event for Silex. Several years in the making, it coincides with the start of the long-awaited recovery in the global uranium market, with uranium prices rising over 45% since the low point in 2017. The MIPA will allow Silex, through its acquisition of a 51% majority interest in GLE, to become a key player in the global nuclear fuel markets, with exposure to uranium production, uranium conversion and uranium enrichment. These markets combined represent over US$9 billion in annual revenues (at today's prices). Closing of the MIPA, which remains subject to US Government approval and other factors, would also result in Cameco, one of the world's leading uranium and nuclear fuel suppliers, increasing its interest in GLE from 24% to 49%.

The acquisition of a majority interest in GLE will allow Silex to lead the SILEX laser-based uranium enrichment technology commercialisation program, being conducted concurrently in GLE's Wilmington, NC Test Loop facility, and Silex's Lucas Heights laser development facility near Sydney. The final stage of GLE's current commercialisation program is the Paducah commercial project opportunity, which is underpinned by the 2016 Sales Agreement between GLE and the US Department of Energy (DOE) for the purchase of hundreds of thousands of tons of depleted UF_6 tails inventories owned by the DOE. This material will be enriched in the proposed Paducah Laser Enrichment Facility (PLEF) to produce tens of thousands of tons of natural grade uranium over several decades – potentially making GLE one of the world's largest uranium (and UF_6) producers. In June 2020 we announced the execution of an amendment to the DOE Sales Agreement involving changes to certain provisions and timelines which re-align the agreement to current market conditions.

We are excited and highly motivated by Cameco's strong support for the GLE restructure. In addition to Cameco increasing their interest in GLE to 49%, Silex and Cameco have also negotiated terms for an option for Cameco to purchase from Silex (at fair market value) an additional 26% interest in GLE, potentially increasing their interest to 75%. As one of the world's leading uranium and nuclear fuel suppliers, Cameco's desire to remain involved in GLE and to ultimately support the path to market through the Paducah commercial project opportunity is indicative of Cameco's commitment to GLE and the SILEX technology.



"The MIPA will allow Silex, through its acquisition of a 51% majority interest in GLE, to become a key player in the global nuclear fuel markets, with exposure to uranium production, uranium conversion and uranium enrichment. These markets combined represent over US$9 billion in annual revenues (at today's prices)."

In accordance with the Company's strategy to commercialise the SILEX technology across multiple markets, in December 2019 we launched a new R&D project in conjunction with project partners Silicon Quantum Computing Pty Ltd (SQC) and UNSW Sydney (UNSW), to develop a process for the commercial production of high-purity 'Zero-Spin Silicon' (ZS-Si) using a variant of the SILEX laser isotope separation (LIS) technology. Silex's LIS technology has the potential to efficiently produce ZS-Si to provide a secure supply of this key material for SQC, in support of its world-leading efforts to commercialise silicon-based quantum computing technology in conjunction with UNSW. In June 2020 we announced that the project team had successfully completed the first stage of work. The three-year project is scheduled to be completed at the end of 2022 with the commissioning of a commercial pilot production plant, from which the initial output will be sold to SQC under a previously announced off-take agreement.

We are currently well placed to leverage our unique and significant expertise in the core SILEX technology, targeting at least two key global industries:

1. **The nuclear fuel industry** – with the unique third generation SILEX uranium enrichment technology – targeting commercialisation in the late 2020's through the PLEF opportunity to produce natural grade uranium (in the form of UF_6); and
2. **The emerging quantum computing industry** – with the SILEX ZS-Si project in collaboration with SQC and UNSW to produce a key enabling material for the emerging silicon quantum computing market – targeting initial sales in 2023.

In March 2020 we received the first minimum annual royalty payment of US$400,000 from IQE Plc (AIM: IQE) for CY2019 for the cREO™ technology. The royalty payments are in addition to US$5 million received by Silex subsidiary Translucent Inc in September 2018 (in IQE stock) for IQE's purchase of the technology. IQE is the global leader in the design and manufacture of advanced semiconductor wafer products used in many of today's advanced semiconductor devices, and is a key player in the emerging 5G wireless technologies market. IQE continues to make progress in the development of the cREO™ technology for their unique RF Filter Materials Portfolio for 5G Handsets, and is engaged with several of its key semiconductor device customers to bring this product to market over the next few years. IQE also continue to assess multiple possible routes to market for the cREO™ technology.

We continue to closely monitor the evolving situation with regard to the global COVID-19 pandemic and in particular developments in Australia and the US. We have implemented significant safety measures to limit the risk posed by COVID-19 in our operations, and we continue to move quickly to adjust our plans as required to ensure the health, safety and well-being of our team members. At the time of writing, we continue to operate in both sites at near-normal operations.

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

Dr Michael Goldsworthy
CEO/Managing Director
27 August 2020

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 the strict nuclear safeguards, security and 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 recently undergone a restructure of its ownership in response to the adverse nuclear fuel market conditions resulting from the 2011 Fukushima accident, which precipitated a change in GLE's business strategy as outlined below.

In December 2019, Silex announced the signing of a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco Corporation (Cameco) and GE-Hitachi (GEH) for the purchase of GEH's 76% interest in GLE. Subject to US Government approvals, this agreement will result in Silex acquiring a 51% majority interest in GLE, and Cameco increasing its interest from 24% to 49%. 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 conventional nuclear power reactor. Enrichment is a technically difficult process and accounts for around 30% of the cost of nuclear fuel and approximately 5% of the total cost of the electricity generated.

The **S**eparation of **I**sotopes by **L**aser **EX**citation (SILEX) process is the only third generation enrichment technology at an advanced stage of commercialisation today. It is able to effectively enrich uranium through highly selective laser excitation of the fluorinated form of uranium – the $^{235}UF_6$ isotopic molecule.

The two methods of uranium enrichment used to date have been the now obsolete Gas Diffusion technique (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

ß = 1.004

High cost

Obsolete

2ND GENERATION TECHNOLOGY

CENTRIFUGE

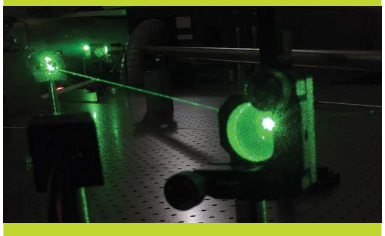
ß ~ 1.25

Lower cost

Current technology

3RD GENERATION TECHNOLOGY

LASER EXCITATION



ß ~ 2 - 20[1]

Most cost effective

In commercialisation phase

1. ß is the process efficiency (Classified number)

Nuclear Fuel Production

The SILEX technology could become a major contributor to nuclear fuel production for the world's current and future nuclear reactor fleet, through the production of uranium in three different forms:

- ***natural grade uranium (U_{nat}):*** via the re-enrichment of DOE tails inventories of depleted tails through the Paducah commercial project (producing uranium at natural U^{235} assay of ~0.7%);
- ***low enriched uranium (LEU):*** for use as fuel in today's conventional nuclear power reactors (includes U^{235} assays between 3% to 5%); and
- ***high assay LEU (HALEU):*** a customised fuel for next generation Small Modular Reactors (SMR's) currently under development (includes U^{235} assays up to 19.9%).

Uranium production and enrichment are the two largest value drivers of the current nuclear fuel cycle, accounting for up to 70% of the value of a fuel bundle.

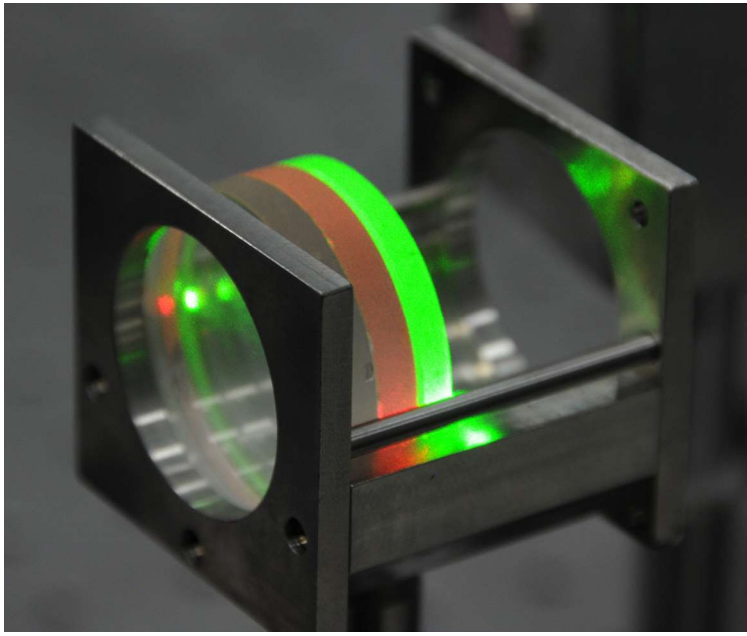
The SILEX Uranium Enrichment Technology

The SILEX technology is a unique laser-based process that has the potential to economically separate uranium isotopes as well as commercially valuable isotopes of several other elements. 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 SMR's; and
- Anticipated to have the lowest enrichment plant capital costs.

The SILEX Technology License Agreement with GLE

The Amended and Restated Technology Commercialisation and License Agreement, signed in 2013 between Silex and GLE, is an exclusive worldwide license for exploitation of the SILEX technology for uranium enrichment. Silex's potential acquisition of a 51% interest in GLE will not affect the license agreement between Silex and GLE, under which Silex will be 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 detailed below. Further milestone payments of US$20m will also be payable to Silex in the event the SILEX technology is commercialised by GLE.



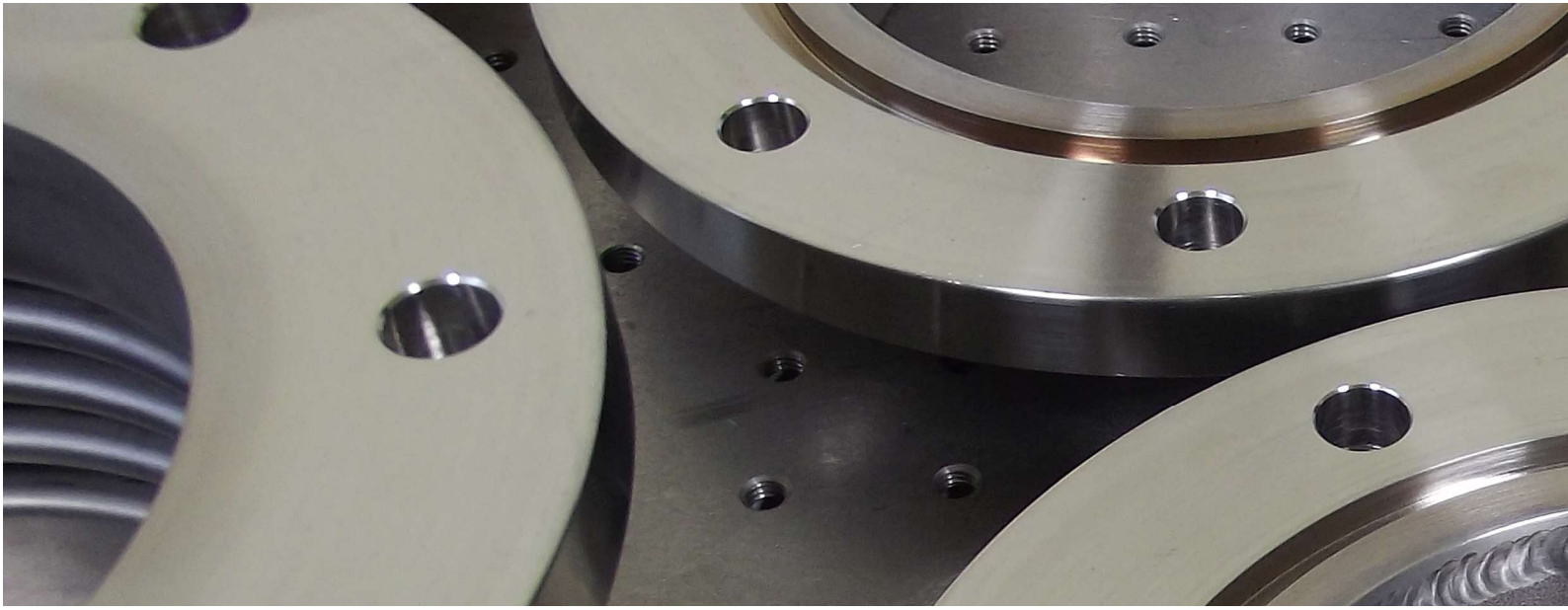
GLE Restructure

In December 2019, a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco and GEH was executed for the joint purchase of GEH's 76% interest in GLE. Closing of the Agreement, which remains subject to US Government approval and other factors, would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%.

The application for US Government approval of the transaction was submitted to the US Nuclear Regulatory Commission (NRC) in February 2020. The process for US Government approval involves a multi-staged, multi-Government agency process and includes several significant filings. US Government approval for the GLE restructure is anticipated to be received by the end of CY2020. There is a possibility that this timeline may not be met due to minor delays being experienced due to the effects of COVID-19.

The MIPA includes a number of key financial terms and provisions including the Purchasers' obligation to reimburse GEH for their respective share of funding for GLE's Wilmington activities. Accordingly, Silex has been reimbursing GEH US$170,000 per month from 1 January 2020, representing 51% of GLE's funding, and this obligation continues until closing of the MIPA or termination. During this time, Cameco have been contributing 49% of GLE's funding. After closing of the MIPA, Silex and Cameco will directly contribute the ongoing funding of GLE (in the ratio of 51:49).

Silex and Cameco have also negotiated terms for 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 is pleased that Cameco, as one of the world's leading uranium and nuclear fuel suppliers, remains involved in GLE and is seeking an increased ownership level.



The Paducah 'Tier 1' Uranium Production Project

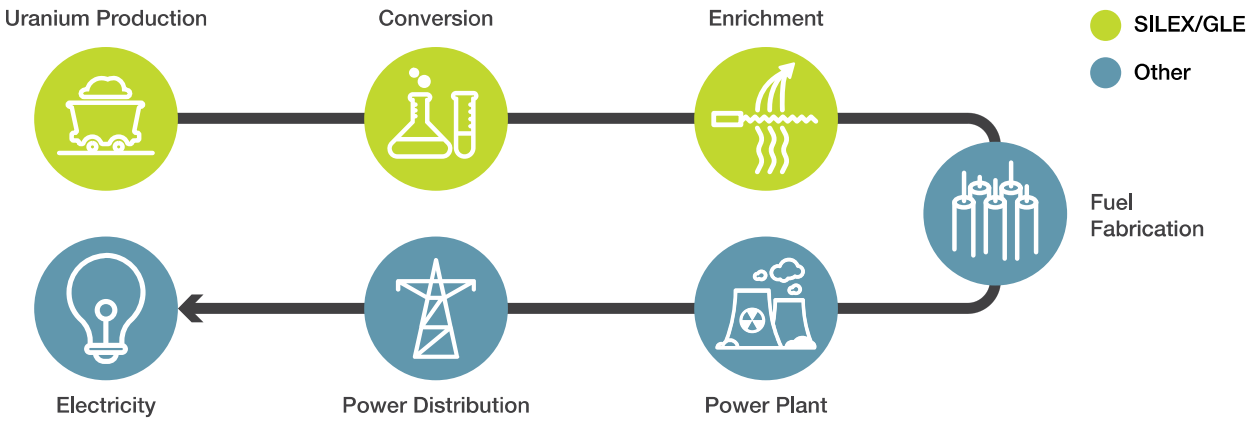
The Paducah commercial project opportunity is an ideal path to market for the SILEX technology. The opportunity would allow for the initial commercial deployment of the technology on a smaller scale and at a lower cost, representing a lower risk path to market for the Company and all stakeholders. Underpinning the opportunity is the 2016 Sales Agreement between GLE and the US Department of Energy (DOE) which provides GLE access to large stockpiles of depleted uranium tails inventories owned by the DOE. The Agreement was amended in 2020 involving changes to certain provisions and timelines which re-align the Agreement to current market conditions.

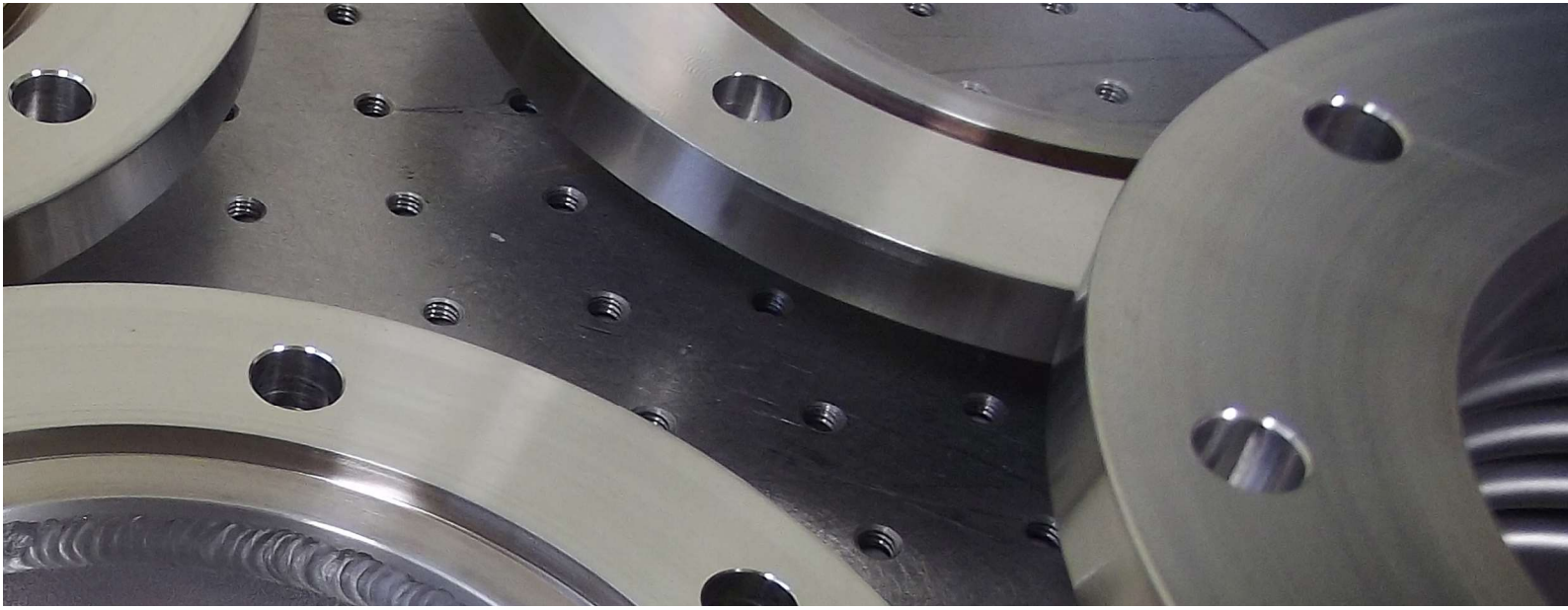
The Paducah commercial project opportunity will involve GLE constructing the proposed 'Paducah Laser Enrichment Facility' (PLEF) utilising the SILEX technology to enrich the DOE tails material which has been stored in the form of depleted uranium hexafluoride (containing U^{235} assays of between 0.25% to 0.4%). Subject to completion of the technology commercialisation project, regulatory approvals and prevailing market conditions, it is anticipated the PLEF will commence commercial operations to produce uranium from the late 2020's.

Tails enrichment at the PLEF would continue over several decades, resulting in the production of natural grade uranium which could then be sold into the global uranium market at a production rate of around 2,000 metric tons of natural uranium per year (in the form of UF_6). This is equivalent to a uranium mine producing an annual output of around 5.2 million pounds of uranium oxide, which would rank in the top ten of today's uranium mines by production volume. In addition, the uranium produced by the PLEF will include the added value of already being converted into UF_6 for further enrichment to LEU. Should LEU also be produced at an expanded PLEF facility, this would mean GLE could potentially become a significant player in the first three steps of the nuclear fuel cycle, as illustrated in the diagram below.

The market value of conversion from uranium oxide to UF_6 has increased over recent months with the spot price currently around US$20 per kg of UF_6 produced. The uranium price has also improved over the last year and is currently around US$32 per pound (UxC, 1 August 2020). Preliminary economic analysis of the PLEF project indicates that it may rank as a large 'Tier 1' uranium mine by today's standards with respect to the long-life and low cost of production.

Nuclear Fuel Cycle





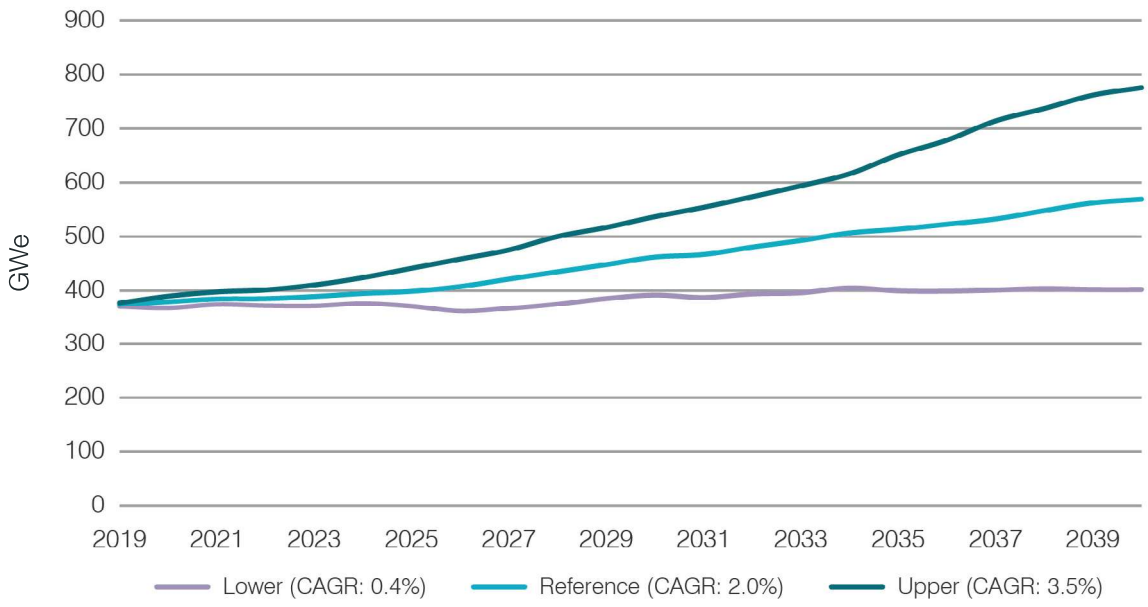
Nuclear Power and Fuel Markets Outlook

The merits of nuclear power as potentially the largest stable source of low-carbon base load electricity in a carbon-constrained world is being embraced with renewed interest. There are many countries which have prioritised government policy initiatives relating to climate change and energy security, stating that nuclear power should form a meaningful part of their energy mix in the future. Furthermore, the importance of stable electricity grids and the economic burden of excessive reliance on variable renewable sources are becoming better understood, as illustrated in studies cited in a recent OECD publication[1].

Nuclear power capacity globally is increasing, not only as a result of new reactor construction but also as a result of operating lifetime extensions and capacity increases for existing nuclear reactors. According to the World Nuclear Association (world-nuclear.org) there are currently 439 operable nuclear reactors today, and 56 nuclear reactors under construction. China is the fastest growing nuclear energy market, with 47 reactors in operation, 12 reactors under construction and a pipeline of over 200 proposed reactors for construction. The US is the world's largest producer of nuclear power, with 95 operable reactors accounting for more than 30% of worldwide nuclear generation of electricity.

With increasing global capacity in nuclear power creating greater demand for nuclear fuel, a recovery in the markets for natural uranium, conversion and enriched uranium is inevitable. Whilst the short-term demand for uranium and enrichment remains soft, market prices continue to trend upwards. As outlined above, the long-term value proposition for nuclear energy and its fuel markets is positive with significant growth forecasted in nuclear power generation around the world.

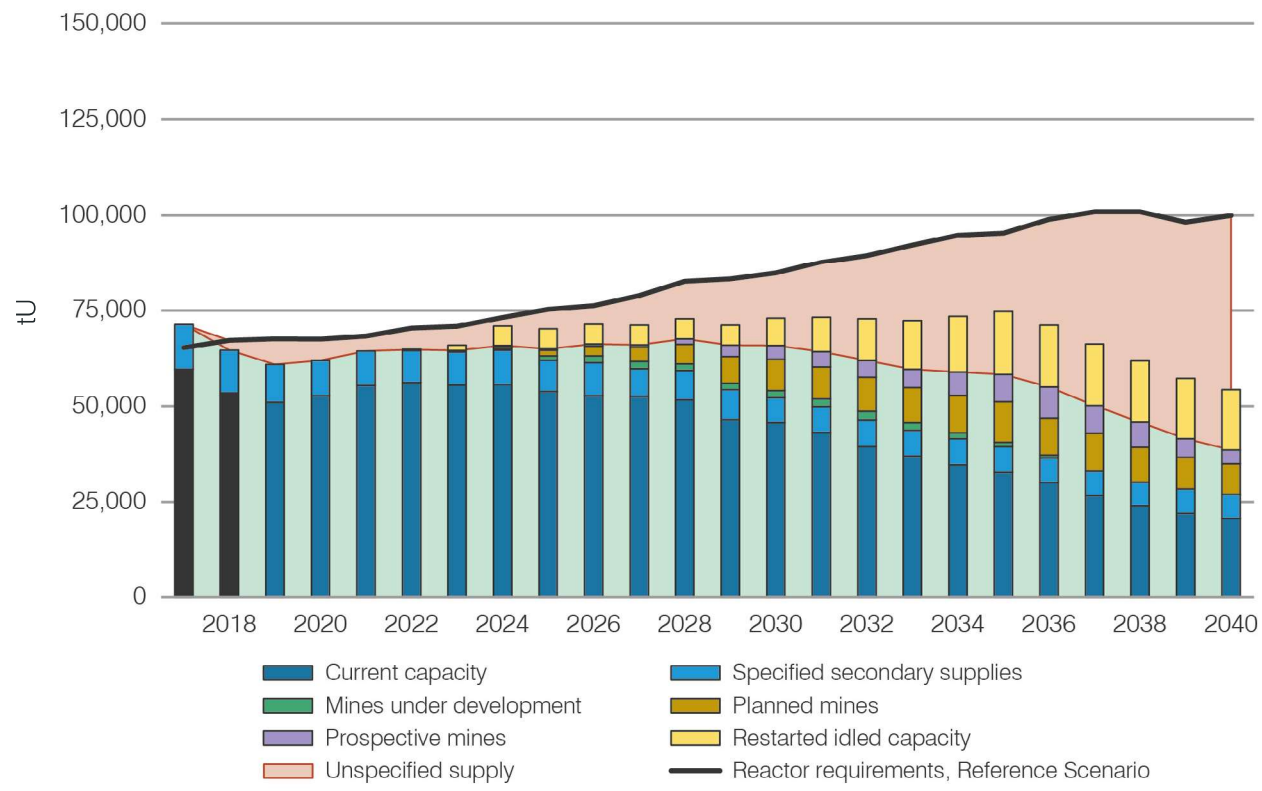
Nuclear generating capacity scenarios to 2040, GWe



Source: World Nuclear Association, July 2020

1. OECD-NEA Policy Brief: 'Nuclear Power and the cost-effective decarbonisation of electricity systems'; June 2020

Reference Scenario supply, tU



Source: World Nuclear Association, July 2020

In addition, there is the potential for commercialisation over the next decade of next-generation SMR's, which may offer significant advantages over large conventional nuclear power reactors. SMR's have the potential to be cheaper and simpler to construct, and as a production platform for base load electricity generation, may compete favourably with intermittent distributed generation such as solar and wind. There are currently numerous SMR development programs advancing around the world, with several designs requiring higher assay fuels (HALEU). With the advantages of lower capital costs and greater flexibility of the SILEX technology, GLE could be well placed to participate in this emerging nuclear fuel market in the coming years.

THE ZERO-SPIN SILICON PROJECT

Overview of the Project

In December 2019, Silex launched a new R&D project in conjunction with project partners Silicon Quantum Computing Pty Ltd (SQC) and UNSW Sydney (UNSW), to develop a process for the commercial production of high-purity 'Zero-Spin Silicon' (ZS-Si) using a variant of the SILEX laser isotope separation (LIS) technology. ZS-Si is a unique form of isotopically enriched silicon required for the fabrication of next generation processor chips which will power silicon-based quantum computers. Silex's LIS technology has the potential to efficiently produce ZS-Si to provide a secure supply of this material for project partner and initial customer SQC, in support of its world-leading efforts to commercialise silicon-based quantum computing technology in conjunction with UNSW.

The three-year ZS-Si project, which was awarded a $3 million Federal Government funding grant from the Cooperative Research Centre Projects (CRC-P) in February 2020, is due for completion at the end of CY2022. The first stage of the three-stage project was successfully completed in June 2020, establishing 'proof-of-concept' for the silicon LIS. The second stage of the project involves the design, construction and operation of scaled-up prototype equipment with the objective of verifying the scalability of the silicon LIS technology and the underlying economics of the process. The third stage will culminate with the planned production of initial commercial quantities of ZS-Si from a SILEX pilot production facility, leading to a full economic assessment of the ZS-Si business case. Silex will retain ownership of the ZS-Si production technology and related intellectual Property developed through the project.

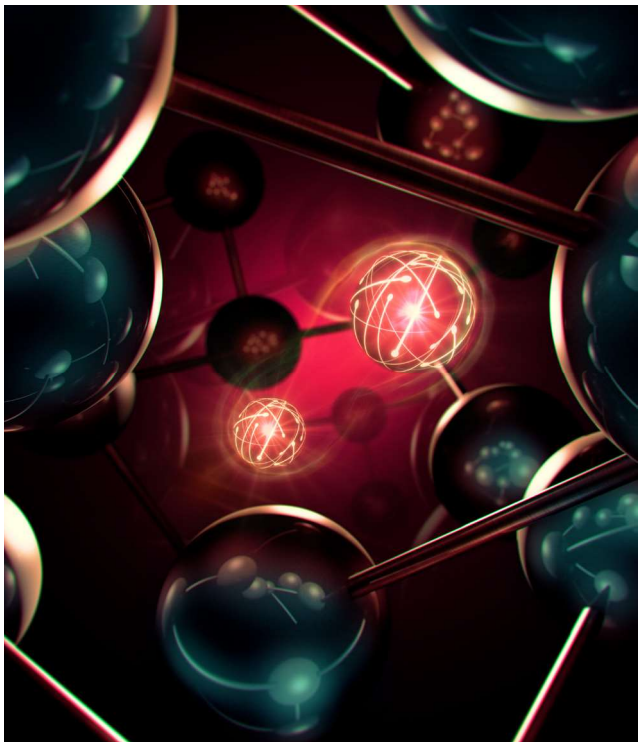
The first commercial quantities of ZS-Si produced from the pilot facility will be purchased by SQC under an Offtake Agreement executed in December 2019, which includes SQC making three annual payments of $300,000 as an offset against future purchases of ZS-Si produced by Silex. The first $300,000 payment was received in December 2019. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring 2.3 million fully paid ordinary shares in the capital of Silex through a $900,000 private placement completed in January 2020, bringing the total value of the transaction with SQC to $1.8 million.

Background to Silicon Quantum Computing

Quantum computers are expected to be thousands of times more powerful than the most advanced of today's conventional computers, opening new frontiers and opportunities in many industries, including medicine, artificial intelligence, cybersecurity, global logistics and global financial systems. Many countries around the world are investing heavily in the development of quantum computing technology, with governments and key corporates (such as Intel, IBM, Google, Microsoft and others) vying for leadership in this emerging strategic industry.

The global quantum computing (QC) opportunity, which is anticipated to expand dramatically over the next two decades, has recently been forecast by CSIRO Futures to be worth around $50 billion in 2040, with an annual growth rate of 6%[2]. A large proportion of this value will relate to hardware, of which silicon-based quantum computers are anticipated to play a significant role.

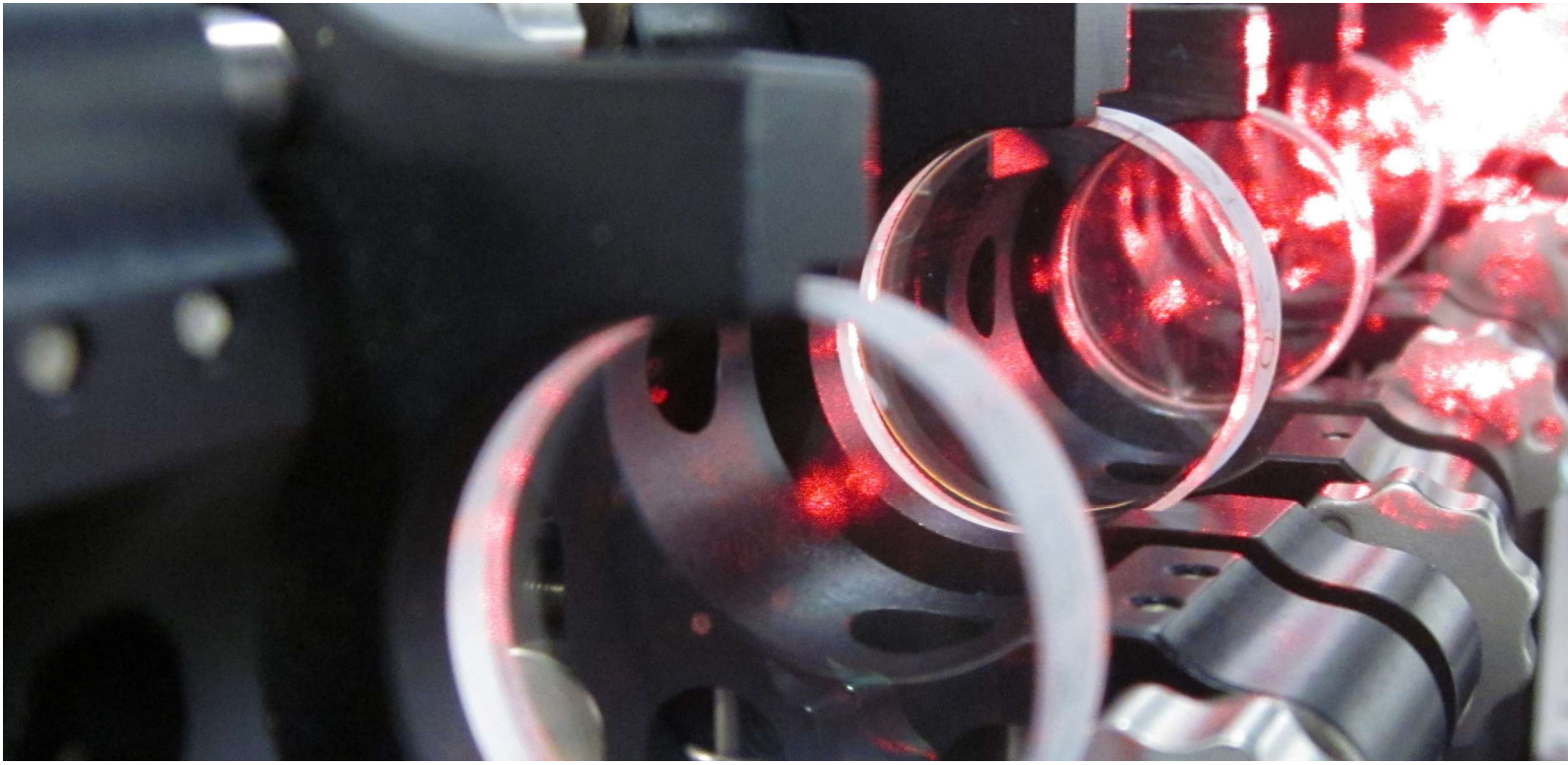
A major challenge in the pursuit of SQC's 'silicon spin qubit' approach (favoured over other methods because of its significant potential in terms of scalability and reliability), is the availability of the key enabling material for the silicon QC processor chip - ZS-Si. Natural silicon (Si) consists of 3 isotopes: 92.2% Si-28, 3.1% Si-30 (each with zero electron spin) and 4.7% Si-29 (with a spin state of ½). The presence of Si-29 in concentrations above 500 parts per million (ppm) (0.05%) prevents effective QC performance, so ZS-Si must be produced by isotopic elimination of Si-29. The lower the concentration of Si-29, the better a silicon quantum processor will perform in terms of computational power, accuracy and reliability.



Prof. Michelle Simmons team at UNSW/CQC2T demonstrated the fastest 2 qubit gate in silicon using atom qubits. Nature 571, 371 (2019) (Illustration by Tony Melov).

Current methods for production of enriched silicon are very limited and costly (even for lower purity material) with only a few kilograms produced annually, mostly using gas centrifuge technology. Should the ZS-Si project be successful, it would enable Australia to establish itself as a world-leader in ZS-Si production, potentially creating a new value-added export market. As the ZS-Si project moves towards completion, Silex will engage other potential customers, including several of the world's largest computer chip manufacturers who are also developing quantum computing technology.

2. "*Growing Australia's Quantum Technology Industry*", Report by CSIRO Futures, May 2020



THE cREO™ SEMICONDUCTOR TECHNOLOGY

Background to the cREO™ Technology and IQE

Silex subsidiary Translucent Inc developed a novel set of semiconductor materials known as 'crystalline Rare Earth Oxides' (cREO™) for application to the manufacturing of advanced semiconductor devices (such as wireless and optical communications) which use high performance compound semiconductor materials rather than silicon. The cREO™ technology is a potentially enabling technology that could create a step change in the integration of various compound semiconductor devices with large scale silicon wafer-based production techniques. This has the potential to improve performance and lower the cost of production of compound semiconductor devices such as chips for wireless communications equipment and power electronics devices.

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 at least 3% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. The agreement also provides for the payment of annual minimum royalties over the period 2019 to 2024, with the first minimum royalty of US$400,000 paid to Translucent in March 2020.

IQE is the global leader in the design and manufacture of advanced compound semiconductor wafers and substrates used in the production of many of today's semiconductor devices, such as smart phones and optical sensors, and is a key supplier to the emerging 5G wireless technologies market. IQE operates manufacturing facilities in the US, UK and Asia.

Commercialisation of cREO™ Technology

The cREO™ technology was successfully transferred in late 2015 to IQE's Greensboro, North Carolina manufacturing facility for the continuation of product development and commercialisation activities. IQE is currently developing the first cREO™ based product, as explained in its latest Annual Report (2019):

"The fastest growing segment of the wireless chip market over the past few years has been for high performance filters. Although the primary materials technology for filters (aluminium nitride AlN) is made from compound semiconductor elements, the wafers to date have been fabricated using a much less sophisticated 'sputtering' process. IQE's cREO™ process provides a unique opportunity to overcome many of the challenges in producing single crystal AlN wafers for 5G filter applications and we are engaged with multiple customers with this potentially disruptive high-performance solution."

Source: IQEp.com

IQE continues to make progress with development of cREO™ based high frequency filters for 5G handset applications and is considering other potential routes to market for the cREO™ technology.

CONCISE FINANCIAL REPORT

for the year ended 30 June 2020

Silex

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 2020.

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:

Mr C A Roy
Dr M P Goldsworthy
Ms M K Holzberger
Mr C D Wilks

2. PRINCIPAL ACTIVITIES

Silex is primarily focused on the development of the SILEX laser enrichment technology for two key global industries:

i) The nuclear fuel industry – with the unique third generation SILEX uranium enrichment technology; and

ii) The emerging quantum computing industry – with the SILEX Zero-Spin Silicon project.

The development and commercialisation program for the SILEX uranium enrichment technology has been undertaken jointly since 2007 by Silex (at its Lucas Heights, Sydney facility) and by GE-Hitachi Global Laser Enrichment LLC (GLE) (in Wilmington, North Carolina). GLE is the exclusive Licensee of the SILEX uranium enrichment technology. The SILEX Zero-Spin Silicon (ZS-Si) project commenced in December 2019 and is being undertaken with project partners Silicon Quantum Computing Pty Ltd (SQC) and UNSW Sydney (UNSW) at Silex's Lucas Heights facility, with the objective of developing a variant of the SILEX technology for the commercial production of ZS-Si, a key enabling material for the emerging silicon quantum computing industry.

3. DIVIDEND

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

4. REVIEW OF OPERATIONS

The review contains the following sections:

a) Operations
b) Financial Results
c) Financial Position
d) Business Strategy and Future Prospects
e) Outlook

a) Operations

Silex's operations are focused on the development and commercialisation of the SILEX laser isotope separation technology for two commercial applications:

i) Uranium enrichment for the production of fuel for the nuclear power industry; and
ii) Silicon enrichment for the production of 'Zero-Spin Silicon' used in the emerging quantum computing industry.

In addition, Silex sold a semiconductor material technology known as cREO™ which was developed by wholly-owned subsidiary Translucent Inc, to UK-based IQE Plc. This technology is currently being commercialised by IQE for application in the 5G communications industry under a license and royalty agreement signed in 2015.

SILEX Uranium Enrichment

The development and commercialisation program for the SILEX uranium enrichment technology has been undertaken jointly since 2007 by Silex (at its Lucas Heights, Sydney facility) and by GLE (in Wilmington, North Carolina), under an agreement executed in 2006 (amended in 2013). GLE is the exclusive Licensee of the SILEX uranium enrichment technology. GLE has been undergoing a restructure for a number of years after GE-Hitachi disclosed it was seeking to exit the GLE venture.

In December 2019, a binding Membership Interest Purchase Agreement (MIPA) between Silex, Cameco Corporation (Cameco) and GE-Hitachi Nuclear Energy (GEH) was executed for the joint purchase of GEH's 76% interest in GLE. Closing of the Agreement, which remains subject to US Government approval and other factors, would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%. The application for US Government approval of the transaction was submitted to the US Nuclear Regulatory Commission (NRC) in February 2020. The process for US Government approval involves a multi-staged, multi-Government agency process and includes several significant filings. US Government approval for the GLE restructure is anticipated to be received by the end of CY2020, however there is the possibility that this timeline may not be met due to minor delays being experienced due to the effects of the COVID-19 pandemic.

The MIPA includes a number of key financial terms and provisions including the Purchasers' obligation to reimburse GEH for their respective share of funding for GLE's Wilmington activities up until closing. Accordingly, Silex has been reimbursing GEH US$170,000 per month from 1 January 2020, representing 51% of GLE's funding, and this obligation continues until closing of the MIPA or termination. During this time, Cameco has been contributing 49% of GLE's funding. After closing of the MIPA, Silex and Cameco will directly contribute the ongoing funding of GLE (in the ratio of 51:49 respectively).

In parallel with the GLE restructure activities, a focused operational effort has continued on the technology commercialisation program at both the Silex, Sydney and GLE, Wilmington project sites. Laser system development activities in Sydney include design upgrades and optimisation for the prototype commercial-scale laser system. Activities in Wilmington include the scaling up of enrichment process equipment and preparation of the Test Loop facility for future deployment of prototype production equipment required for pre-commercial uranium enrichment testing.

Zero-Spin Silicon for Quantum Computing

In December 2019 Silex launched a new R&D project in conjunction with project partners Silicon Quantum Computing Pty Ltd (SQC) and UNSW, to develop a process for the commercial production of high-purity 'Zero-Spin Silicon' (ZS-Si) using a variant of the SILEX laser isotope separation (LIS) technology. ZS-Si is a unique form of isotopically enriched silicon required for the fabrication of next generation processor chips which will power silicon-based quantum computers. Silex's LIS technology has the potential to efficiently produce ZS-Si to provide a secure supply of this material for project partner SQC, in support of its world-leading efforts to commercialise silicon-based quantum computing technology in conjunction with UNSW.

The three-year ZS-Si project, which was awarded a $3 million Federal Government funding grant from the Cooperative Research Centres Projects (CRC-P) in February 2020, is due for completion at the end of CY2022. The first stage of the three-stage project was successfully completed in June 2020, establishing 'proof-of-concept' for the silicon LIS process identified by Silex. The second stage of the project involves the design, construction and operation of scaled-up prototype equipment with the objective of verifying the scalability of the silicon LIS technology and the underlying economic limit of the process (in terms of achievable isotopic purity). The third stage will culminate with the planned production of initial commercial quantities of ZS-Si from a SILEX pilot production facility, leading to a full economic assessment of the ZS-Si business case.

The first commercial quantities of ZS-Si produced from the pilot facility will be purchased by SQC under an Offtake Agreement executed in December 2019, which includes SQC making three annual payments of $300,000 as an offset against future purchases of ZS-Si produced by Silex. The first $300,000 payment was received in December 2019. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring 2.3 million fully paid ordinary shares in the capital of Silex through a $900,000 private placement completed in January 2020, bringing the total value of the transaction with SQC to $1.8 million.

cREO™ Technology

Silex subsidiary Translucent's cREO™ technology was purchased by UK-based IQE Plc (AIM: IQE) in early 2018 in accordance with a 2015 License and Assignment Agreement between Translucent and IQE. As a result, payment of US$5 million was received by Translucent in September 2018 (in IQE stock). In addition, a perpetual royalty of at least 3% and will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. Minimum annual royalties commenced being paid during FY2020, with the first minimum annual royalty payment of US$400,000 for the year ended CY2019 received in March 2020. Minimum annual royalties are anticipated to continue until the earlier of completion of IQE's cREO™ commercialisation program or CY2024.

COVID-19 Implications

The COVID-19 global pandemic has created significant uncertainty and challenges across the world. At Silex, we continue to conduct operations with extreme caution and heightened concern for the safety and wellbeing of our team. In March 2020, the Company announced the implementation of numerous measures in response to a decision to temporarily curtail the Company's operations due to the COVID-19 pandemic in line with Government requirements and recommendations. Additional measures aimed at cash preservation included the reduction of working hours for all employees and the Company's executives volunteering to utilise leave balances whilst continuing to work full-time. Operational cost reductions were also achieved with regard to the Company's lease obligations and other operational overhead costs.

The Company successfully applied for the Federal Government's JobKeeper payment and was assessed as eligible on 27 April 2020 with payment backdated to 30 March 2020. The JobKeeper payment applied to 11 of the Company's employees within Australia and $66,000 was received for the year ended 30 June 2020. In addition, the Company benefited from the Federal Government's Temporary Cash Boost for Employers and received $50,000 for the year ended 30 June 2020.

Full-time operations resumed from 1 July, however the Company is reviewing the evolving COVID-19 situation continuously with a view to making additional changes to operations as needed and/or as advised by the Federal and NSW Governments.

b) Financial Results

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

	2020 $	2019 $
Revenue from continuing operations	**1,001,206**	1,314,744
Other income	**1,238,157**	1,012,006
(Loss) before tax	**(7,805,182)**	(5,153,108)
Income tax expense	**–**	–
Net (loss) from continuing operations	**(7,805,182)**	(5,153,108)
Net (loss) for the year	**(7,805,182)**	(5,153,108)
Net (loss) is attributable to:		
Owners of Silex Systems Limited	**(7,805,182)**	(5,153,108)

The net loss from ordinary activities was $7.8m compared to $5.2m in the prior year. The increase in net loss from ordinary activities is mainly due to a $2.6m increase in Development expenditure, reflecting Silex's obligation to reimburse GEH for the funding of GLE's Wilmington Test Loop activities. Development expenditure is higher in the current year as it includes a holdback amount of US$1.125m for the reimbursement of costs held over from the previous Term Sheet (which became payable on the signing of the MIPA). In addition, the monthly reimbursement increased from US$153,000 per month to US$170,000 per month from January 2020. Interest revenue reduced from $0.7m to $0.4m in the current period as cash reserves decreased and interest rates declined. Partly offsetting this was the increase in Other income of $0.2m.

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

The loss of Silex Systems increased from $3.5m in the prior year to $3.8m. The increase in net loss was largely attributable to a reduction in Interest revenue as outlined above.

Translucent

The Translucent segment result was a $0.6m profit in the current year which is consistent with the prior year. The current and prior year result included $0.6m Royalty revenue from the sale of intellectual property which related to the accrual of royalties in accordance with the sale of the cREO™ technology to IQE Plc.

Silex USA

The Silex USA segment result was a loss of $4.6m compared to a loss of $2.2m in the prior year. The loss increased as a result of higher Development expenditure as outlined above.

c) Financial Position

A summary of our balance sheet is set out below:

	30 June 2020 $	30 June 2019 $
Assets		
Total current assets	**29,066,557**	37,403,440
Total non-current assets	**319,238**	113,924
Total assets	**29,385,795**	37,517,364
Liabilities		
Total current liabilities	**1,890,184**	1,464,376
Total non-current liabilities	**29,406**	18,802
Total liabilities	**1,919,590**	1,483,178
Net assets	**27,466,205**	36,034,186
Equity		
Total equity	**27,466,205**	36,034,186

As at 30 June 2020, total assets were $29.4m. Significant assets are cash holdings of $18.4m (cash and term deposits), and Financial assets at fair value through other comprehensive income of $8.5m (shares in IQE). Total liabilities were $1.9m. The reduction in net assets was due to the net loss for the year and the decline in the IQE Plc share price.

d) Business Strategy and Future Prospects

Silex's Strategy

Silex is a platform technology company focused on the commercialisation of our innovative SILEX laser isotope separation technology across multiple markets. Fundamental to the execution of our strategy are the following:

- Leading the SILEX uranium enrichment technology commercialisation program through the acquisition of a 51% interest in exclusive Licensee GLE;
- Strengthening our path to market in the US through the tails agreement with the US Department of Energy (DOE) and the Paducah commercial project opportunity for uranium production; and
- Diversifying the utility of the SILEX technology by developing alternative applications, such as enriched silicon for use as Zero-Spin Silicon – a key material for quantum computer chip fabrication.

SILEX Uranium Enrichment

The SILEX technology, which is the only known third-generation laser-based uranium enrichment technology under commercial development today, could become a major contributor to nuclear fuel production for the world's current and future nuclear reactor fleet, through the production of uranium in three different forms:

- **natural grade uranium (U_{nat}):** via re-enrichment of DOE inventories of depleted tails through the Paducah commercial project (producing uranium at natural U^{235} assay of ~0.7%);
- **low enriched uranium (LEU):** for use as fuel in today's conventional nuclear power reactors (includes U^{235} assays between 3% to 5%); and
- **high assay LEU (HALEU):** a customised fuel for next generation Small Modular Reactors (SMRs) currently under development (includes U^{235} assays up to 19.9%).

Uranium production and enrichment are the two largest value drivers of the nuclear fuel cycle, accounting for up to 70% of the value of a fuel bundle at current market prices. Commercialisation of the SILEX uranium enrichment technology through Licensee GLE may therefore enable the SILEX technology to become a key component of the global nuclear fuel cycle.

Status of Nuclear Fuel Markets

Nuclear power capacity globally is increasing, not only as a result of new reactor construction but also as a result of operating lifetime extensions and capacity increases for existing nuclear reactors. According to the World Nuclear Association (world-nuclear.org) there are currently 439 operable nuclear reactors today, and 56 nuclear reactors under construction. China is the fastest growing nuclear energy market, with 47 reactors in operation, 12 reactors under construction and a pipeline of over 200 proposed reactors for construction. The US is the world's largest producer of nuclear power, with 95 operable reactors accounting for more than 30% of worldwide nuclear electricity generation.

Over the past year, the signs of recovery in the markets for nuclear fuel have become evident, including uranium, conversion and enrichment. Whilst the short-term demand for uranium and enrichment remains soft, market prices continue to trend upwards. As outlined above, the long-term value proposition for nuclear energy and its fuel markets is positive with significant growth forecasted in nuclear power generation around the world.

In addition, there is the potential for commercialisation over the next decade 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 production platform for base load electricity generation, may compete favourably with intermittent distributed generation such as solar and wind. There are currently numerous SMR development programs advancing around the world, with several designs requiring higher assay fuels (HALEU). With the advantages of lower capital costs and greater flexibility of the SILEX technology, GLE could be well placed to address this emerging nuclear fuel market in the coming years.

The Paducah 'Tier 1' Uranium Production Project

The Paducah commercial project opportunity is 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 the Company and all stakeholders. Underpinning the opportunity is the 2016 Sales Agreement between GLE and the US DOE which provides GLE access to large stockpiles of depleted uranium tails inventories owned by the DOE. The agreement was amended in 2020 involving changes to certain provisions and timelines which re-align the agreement to current market conditions.

The Paducah commercial project opportunity will involve GLE constructing the proposed 'Paducah Laser Enrichment Facility' (PLEF) utilising the SILEX technology to enrich the DOE tails material which has been stored in the form of depleted uranium hexafluoride (containing U^{235} assays of between 0.25% and 0.4%). Subject to completion of the technology commercialisation project, regulatory approvals and prevailing market conditions, it is anticipated the PLEF will commence commercial operations to produce uranium from the late 2020's.

Tails enrichment at the PLEF would continue over several decades, resulting in the production of natural grade uranium which could then be sold into the global uranium market at a production rate of around 2,000 metric tons of natural uranium per year (in the form of UF_6). This is equivalent to a uranium mine producing an annual output of around 5.2 million pounds of uranium oxide, which would rank in the top ten of today's uranium mines by production volume. In addition, the PLEF uranium output will include the added value of conversion into UF_6. The market value of conversion has increased recently with the spot price currently around US$20 per kg of UF_6 produced. The uranium price has also improved over the last year and is currently around US$32 per pound (UxC, 1 August 2020). Preliminary economic analysis of the project indicates that it may rank as a large 'Tier 1' uranium mine by today's standards with respect to the long-life and low cost of production.

SILEX Technology License Agreement with GLE

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 for uranium enrichment, including the Paducah commercial project 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. Ultimately, the future of the technology and likelihood of success in the remaining commercialisation program is heavily dependent on a recovery in the global markets for natural and enriched uranium and the successful closing the GLE restructure upon receipt of US government approvals. Commercialisation of the SILEX uranium enrichment technology therefore remains subject to these and other risks.

Zero-Spin Silicon for Quantum Computing

Silex's LIS technology has the potential to efficiently produce ZS-Si to provide a secure supply of this material for project partner SQC, in support of its world-leading efforts to commercialise silicon-based quantum computing technology in conjunction with UNSW.

Quantum computers are expected to be thousands of times more powerful than the most advanced of today's conventional computers, opening new frontiers and opportunities in many industries, including medicine, artificial intelligence, cybersecurity and global financial systems. Many countries around the world are investing heavily in the development of quantum computing technology, with governments and key corporates (such as Intel, IBM, Google, Microsoft and others) vying for leadership in this emerging strategic industry.

The three-year, three-stage ZS-Si project is due for completion at the end of CY2022. The third and final stage of the project will culminate with the planned production of initial commercial quantities of ZS-Si from a SILEX pilot production facility, leading to a full economic assessment of the ZS-Si business case. The first commercial quantities of ZS-Si produced from the pilot facility will be purchased by SQC under an Offtake Agreement executed in December 2019, which includes SQC making three annual payments of $300,000 as an offset against future purchases of ZS-Si produced by Silex. We believe our LIS technology has the potential to efficiently produce ZS-Si to provide a secure supply of this material for project partner SQC, in support of its world-leading efforts to commercialise silicon-based quantum computing technology in conjunction with UNSW.

Following pilot production and the full economic assessment of the ZS-Si business case, the Company may proceed with the construction of a SILEX commercial ZS-Si production plant at Silex's Lucas Heights facility. The ZS-Si project remains dependent on the outcomes of the project and the viability of silicon quantum computing and is therefore at risk.

cREO™ Technology

The commercial prospects of the cREO™ technology remain positive with IQE continuing to pursue the development of the technology for their high frequency filters for 5G handset applications. IQE is the global leader in the design and manufacture of advanced semiconductor wafer products used in many of today's advanced semiconductor devices, and is a key player in the emerging 5G wireless technologies market.

Minimum annual royalties of US$400,000 per annum are anticipated to continue until the earlier of completion of IQE's high frequency filters commercialisation program or CY2024, and if successfully completed a perpetual royalty of at least 3% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. The outcome of the cREO™ commercialisation program being conducted by IQE remains subject to various technology and market risks.

e) Outlook

The Company's future prospects and results remain uncertain at this time, being 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, a recovery in the markets for both uranium and enrichment services, and developments in the emerging quantum computing industry and associated supply chain.

5. EARNINGS PER SHARE

	2020 Cents	2019 Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	**(4.5)**	(3.0)
Diluted earnings per share	**(4.5)**	(3.0)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		
Basic earnings per share	**(4.5)**	(3.0)
Diluted earnings per share	**(4.5)**	(3.0)

6. SIGNIFICANT CHANGES IN STATE OF AFFAIRS

On 16 December 2019, Silex announced the execution of a binding MIPA between Silex, Cameco Corporation and GEH for the joint purchase, by Silex and Cameco, of GEH's 76% interest in the SILEX technology Licensee GLE. Subject to obtaining US Government approvals and other factors, closing of the MIPA would result in Silex acquiring a 51% interest in GLE and Cameco increasing its interest from 24% to 49%. The MIPA includes a number of key financial terms and provisions including the Purchasers' obligation to reimburse GEH for its share of funding for GLE's Wilmington activities. As noted in Section 4a) above, from 1 January 2020 Silex is required to reimburse GEH US$170,000 per month. In addition, Silex paid GEH US$1.125m on 6 February 2020 for the reimbursement of costs held over from the previous Term Sheet agreed between the parties.

In December 2019, Silex launched a new project for the production of high-purity 'Zero-Spin Silicon' (ZS-Si) for the fabrication of next generation processor chips which will power silicon-based quantum computers. The launch of the project was marked by the signing of an Offtake Agreement between Silex and SQC, which includes SQC making three annual payments of $300,000 as an offset against future purchases of ZS-Si produced by Silex, the first of which was received in December 2019. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring, through a private placement for $900,000, 2.3 million fully paid ordinary shares in the capital of Silex bringing the total value of the transaction to $1.8m. The Silex shares were issued to SQC in January 2020. The three-year ZS-Si project was also awarded a $3m Federal Government funding grant from the CRC-P in February 2020 and is due for completion at the end of CY2022.

The COVID-19 global pandemic has created significant uncertainty and challenges. In March 2020, Silex announced the implementation of numerous measures in response to a temporary curtailment of the Company's activities as a result of COVID-19. The measures focused on the health, safety and wellbeing of staff and cost reduction measures to preserve cash. Operational measures included the reduction of working hours for all employees and the Company's executives volunteering to utilise leave balances whilst continuing to work full-time. The Company's facility at Lucas Heights has remained open, albeit at a reduced level of activities while the abovementioned measures were in place. The landlord of the Silex Lucas Heights facility graciously granted some rent relief during the year. In Wilmington, operations at GLE's Test Loop facility were suspended in March for several weeks while appropriate safe work protocols were put in place.

The Company successfully applied for the Federal Government's JobKeeper program and was assessed as eligible on 27 April 2020 with payment backdated to 30 March 2020. The Company also received the Federal Government's Temporary Cash Boost for Employers and a reduction in payroll tax from the NSW state government. The total government financial assistance provided to the Company as a result of COVID-19 for the year ended 30 June 2020 was approximately $200,000 with part of this not received until after 30 June 2020.

7. MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

Between 30 June 2020 and the date of this report, the IQE Plc share price (AIM: IQE) has been subject to significant volatility. Combined with movements in exchange rates, the value of the shares held at 30 June 2020 (disclosed as Financial assets at fair value through other comprehensive income) has increased by approximately $1,400,000 since 30 June 2020. 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 2020 will be recognised in the financial statements for the year ended 30 June 2021.

There continues to be significant uncertainty associated with the potential impacts of the COVID-19 pandemic. Although full-time operations resumed at the Company's Lucas Heights facility from 1 July, the Company continues to review the evolving COVID-19 situation with a view to making additional changes to operations if needed and/or if advised by the Federal and NSW Governments. Consideration with respect to any prolonged impact of the pandemic is ongoing.

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. INFORMATION ON DIRECTORS

a) Directors' profiles

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

Mr Craig Roy MBA, MSc, FAICD. *Chair – Independent non-executive director*		
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. *Chief Executive Officer/Managing Director*		
Experience and expertise	CEO/MD for twenty-eight 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	100,000

Ms Melissa Holzberger LLM, Dip Intl Nuclear Law, LLB, BA, GDLP, FGIA, GAICD. *Independent non-executive director*		
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

Mr Christopher Wilks BCom, 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

9. 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:

	Directors' Meetings		Audit Committee Meetings		People & Renumeration Committee Meetings	
Director's name	**Number Held[1]**	**Number Attended**	**Number Held[1]**	**Number Attended**	**Number Held[1]**	**Number Attended**
Mr C A Roy	12	12	3	3	5	5
Dr M P Goldsworthy	12	12	▲	▲	▲	▲
Ms M K Holzberger	12	12	3	3	5	5
Mr C D Wilks	12	12	3	3	5	5

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*

10. REMUNERATION REPORT

We are pleased to present to you the FY2020 Silex Systems Limited Remuneration Report, for which we seek your support at our Annual General Meeting in October 2020. 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.

The Company's People & Remuneration Committee oversees remuneration strategy, policy and framework, and executive KMP remuneration. The Committee evaluates the Company's strategy and objectives and makes remuneration recommendations to the Board which include focussed performance measures for executive KMP. We are committed to providing transparency around our remuneration programs and initiatives to retain and incentivise our team.

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 and other stakeholders.

The Company executed on a number of strategic priorities in FY2020. Our progress with our priorities continued despite the uncertainty and challenges presented by the COVID-19 pandemic and we have structured our remuneration outcomes for FY2020 and remuneration arrangements for FY2021 to sustain the Company to deliver on its objectives and to create long-term value. Further details are provided in this report.

In March and during the early stages of the pandemic, our executive KMP volunteered to sacrifice leave balances whilst continuing to work full-time on the Company's priorities. It was also resolved that no increases be awarded with respect to base remuneration for FY2020 or FY2021 for our CEO/MD and CFO/Company Secretary and all future Short-term or Long-term incentives will be structured using a variety of equity-based awards rather than cash.

The Committee and the Board believe equity-based compensation is important to conserve cash reserves as much as possible and to motivate employees to align their interests with those of our shareholders to drive positive outcomes in the longer term. Our Employee Incentive Plan (EIP), that was reintroduced for employees in May 2019, is an important component of our remuneration structure to drive performance and to incentivise retention. We are pleased that staff have welcomed the opportunity to receive equity-based compensation. The 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 continuously monitor market developments and best practice recommendations with respect to compensation to ensure our decisions are appropriate in relation to the Company's performance and to enable adjustment of our remuneration structure and practices as required.

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 October 2020.

Craig Roy
Chair, People & Remuneration Committee

DIRECTORS' REPORT

The Directors present the Remuneration Report for the year ended 30 June 2020, 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 2019 Annual General Meeting
e) Elements of executive KMP remuneration
f) Link between FY2020 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 2020 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. The KMP covered in this report are as follows:

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.

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 2020 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 FY2020	5
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 appropriate remuneration policies and practices that are competitive and reasonable for the Company relative to its performance, and to make specific recommendations in relation to KMP compensation, 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 FY2020. 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 arrangements during the year, the Board resolved to reinstate at-risk Short-term incentives (STIs) for the CEO/MD. Given our CEO/MD's ability to significantly influence outcomes and deliver on our strategic priorities, the Board resolved to reintroduce STIs from 1 July 2020 using equity-based compensation (subject to shareholder approval). Future STIs for the CFO/Company Secretary were also restructured as part of the review, and it was resolved to replace cash-based awards with equity-based STIs. All executive KMP incentives are now equity-based and therefore aligned with the creation of shareholder value over the long-term.

The executive KMP remuneration framework will comprise two components:

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

Remuneration structure

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 for FY2020 (FY2021 – potential award of 100,000 Performance Rights subject to shareholder approval at the 2020 AGM) *CFO:* $65,000 for FY2020** (FY2021 – award of 50,000 Performance Rights)
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 150,000 options subject to shareholder approval at the 2020 AGM *CFO:* 100,000 options issued in April 2020. Potential value of options issued to CFO: $14,580

* *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 or cancelled if the relevant executive acts fraudulently or dishonestly or breaches their obligations to the Company.*

** *In FY2019, a STI to the total value $105,000 for the 18-month period 1 July 2018 to 31 December 2019 was offered. $60,000 was attributable to FY2019 and $45,000 to FY2020. In addition, a STI of $20,000 was offered with respect to performance indicators specific to FY2020. Therefore, the total potential value of the FY2020 STI is $65,000 (being the sum of $45,000 and $20,000).*

TFR is comprised of base salary and superannuation. 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.

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 2019 Annual General Meeting

Silex Systems Limited received more than 98% of "yes" votes on its Remuneration Report for the 2019 financial year.

e) Elements of executive KMP remuneration

The executive KMP remuneration for FY2020 comprised the following elements:

	CEO/MD	CFO/Company Secretary
Total Fixed Remuneration (TFR)		
Composition	Base salary and superannuation	Base salary and superannuation
Assessment	Based on responsibilities, performance and market data	Based on responsibilities, performance and market data
At risk	No	No
Short-Term Incentives		
Composition	Nil	For FY2020, the maximum STI opportunity was $65,000. Awards may be paid in cash or by the issue of restricted Silex Systems Limited ordinary shares.
Opportunity	N/A	$65,000
Assessment	N/A	KPIs included execution of the MIPA for Silex's purchase of 51% of GLE, finalising funding arrangements for the ZS-Si project and the achievement of other strategic and commercial performance measures. 94.8% of the STI award was paid in cash in August 2020.
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.
Long-Term Incentives		
Composition	An equity-based LTI may be granted annually at the discretion of the Board. Subject to shareholder approval, 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. For FY2020, the LTI comprised a grant of options.
Opportunity	Issue of 150,000 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 FY2020 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 FY2020 grant, the options' exercise price will be $0.57. 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 30 June 2020.	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 April 2020 issue of options, the exercise price is $0.21.
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.
Board discretion	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 LTI award.	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 LTI award.

f) Link between FY2020 remuneration and performance

FY2020 performance and impact on remuneration

The Company's performance during FY2020 was considered strong, with delivery on a number of strategic priorities, including the execution of the binding purchase agreement in December 2019 underpinning the restructure of SILEX technology Licensee, GLE, the advancement of the process to obtain US Government approvals for the GLE restructure, and the launch in late 2019 of the Zero-Spin Silicon project utilising a variant of the SILEX technology including the $3m funding contribution from the Federal CRC-P grant program. As a result of these positive achievements, the Board awarded the CFO/Company Secretary 94.8% of the maximum short-term incentive for FY2020. The Board also resolved to reinstate Short-term incentives to the CEO/MD from 1 July 2020. Executive KMP may also benefit in future years from equity-based Long-term incentives granted in FY2019 and FY2020 once the associated service and performance conditions are met.

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 $
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
2020	(4.5)	61,600	0.78

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

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 and are reviewed annually. As a result of the increased activities of the Company, it was resolved in early CY2020 to commence the payment of fees for participating on Board committees from 1 April 2020. This was due to the additional Director workload and responsibilities as a result of the execution of the MIPA in December 2019 and the launch of the ZS-Si project, also in December 2019. 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 FY2020.

The aggregate non-executive directors' fees are reviewed periodically by the Board taking into account comparable roles and market data. The maximum annual aggregate directors' fee pool limit is $750,000 and was approved by shareholders at the 2011 AGM.

The current annual fee structure is outlined below:

	Chair	Member
Board	100,000	80,000
Audit Committee*	10,000	8,000
People & Remuneration Committee*	10,000	8,000

* *Committee fees payable from 1 April 2020.*

All non-executive directors enter into a written agreement with the Company in the form of a letter appointment.

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.

		Fixed remuneration				Variable remuneration		
Name	Year	Cash salary and fees* $	Non-monetary benefits* $	Annual and Long service leave** $	Post-employment benefits $	Cash bonus* $	Options*** $	Total $
Executive directors								
Dr M P Goldsworthy	**2020**	**528,097**	**–**	**(62,301)**	**21,903**	**–**	**5,895**	**493,594**
	2019	522,275	6,737	4,195	23,731	–	741	557,679
Non–executive directors								
Mr C A Roy (from 1/1/2019)	**2020**	**109,678**	**–**	**–**	**4,750**	**–**	**–**	**114,428**
	2019	50,000	–	–	4,750	–	–	54,750
Ms M K Holzberger (from 1/1/2019)	**2020**	**84,500**	**–**	**–**	**8,027**	**–**	**–**	**92,527**
	2019	40,000	–	–	3,800	–	–	43,800
Mr C D Wilks	**2020**	**84,000**	**–**	**–**	**7,980**	**–**	**–**	**91,980**
	2019	80,000	–	–	7,600	–	–	87,600
Former Directors								
Dr L M McIntyre (until 31/12/2018)	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2019	50,000	–	–	4,750	–	–	54,750
Mr R A R Lee (until 31/12/2018)	**2020**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
	2019	40,000	–	–	3,800	–	–	43,800
Other Executive KMP								
Ms J E Ducie	**2020**	**302,297**	**–**	**(35,466)**	**22,703**	**61,600**	**6,393**	**357,527**
	2019	300,569	–	12,002	24,431	60,000	581	397,583
Total executive directors and other KMP	**2020**	**830,394**	**–**	**(97,767)**	**44,606**	**61,600**	**12,288**	**851,121**
	2019	822,844	6,737	16,197	48,162	60,000	1,322	955,262
Total NED remuneration	**2020**	**278,178**	**–**	**–**	**20,757**	**–**	**–**	**298,935**
	2019	260,000	–	–	24,700	–	–	284,700
Total KMP remuneration	**2020**	**1,108,572**	**–**	**(97,767)**	**65,363**	**61,600**	**12,288**	**1,150,056**
	2019	1,082,844	6,737	16,197	72,862	60,000	1,322	1,239,962

* *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.*

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

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	
	2020	2019	**2020**	2019	**2020***	2019
Directors						
Mr C A Roy	**100.0%**	100.0%	**N/A**	N/A	**N/A**	N/A
Dr M P Goldsworthy	**98.8%**	99.9%	**N/A**	N/A	**1.2%**	0.1%
Ms M K Holzberger	**100.0%**	100.0%	**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	**N/A**	100.0%	**N/A**	N/A	**N/A**	N/A
Mr R A R Lee	**N/A**	100.0%	**N/A**	N/A	**N/A**	N/A
Other Executive KMP						
Ms J E Ducie	**81.0%**	84.8%	**17.2%**	15.1%	**1.8%**	0.1%

* *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 2020 AGM.*

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

	Total STI			LTI (Options)	
Name	Total opportunity $	Awarded %	Forfeited %	Value granted* $	Value exercised $
Dr M P Goldsworthy	–	–	–	15,890	–
Ms J E Ducie	65,000	94.8%	5.2%	14,580	–

** 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 maximum STI opportunity for the CFO/Company Secretary for FY2020 was $65,000 and included $45,000 for key performance deliverables that expired in December 2019. It has been agreed that all future incentives to executive KMP be equity-based.

LTI – Options

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

Grant Date	Vesting and exercise date	Expiry date	Exercise price $	Value per option at grant date $	Performance achieved	Vested %
21/05/2019	21/05/2022	20/05/2024	$0.35	$0.1635	To be determined	N/A
2/12/2019	21/05/2022	1/12/2024	$0.35	$0.1589	To be determined	N/A
1/04/2020	1/04/2023	31/03/2025	$0.21	$0.1458	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.

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 FY2020 (or FY2019).

The potential grant of options to our CEO/MD for the FY2020 LTI is subject to shareholder approval at the 2020 AGM. If granted, details will be provided to the ASX and included in the Remuneration Report for the year ending 30 June 2021.

Options held by KMP

			Vested				Balance at end of year	
Name and grant date	Balance at the start of the year	Granted as compensation	Number	%	Exercised	Other changes	Vested and exercisable	Unvested
Dr M P Goldsworthy – 2 December 2019	–	100,000	–	–	–	–	–	100,000
Ms J E Ducie – 21 May 2019	100,000	–	–	–	–	–	–	100,000
– 1 April 2020	–	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	150,000	–	–	–	150,000
Dr M P Goldsworthy	5,979,055	–	–	–	5,979,055
Ms M K Holzberger	27,777	–	–	–	27,777
Mr C D Wilks	2,814,021	–	–	–	2,814,021
Other Executive KMP					
Ms J E Ducie	20,000	–	–	–	20,000

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**.

11. 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
2/12/2019*	1/12/2024	$0.35	100,000
1/04/2020*	31/03/2025	$0.21	660,000

** 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.

12. COMPANY SECRETARY

Ms J E Ducie BBus, CA, MBA (Exec), 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.

13. INDEMNIFICATION AND INSURANCE OF DIRECTORS

The Company has entered into Deeds 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.

14. ENVIRONMENTAL REGULATION

Silex seeks to be compliant with all environmental laws and regulations relevant to its operations. The Company monitors compliance on a regular basis. The Audit Committee has oversight of environmental risks and compliance.

The Company is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The Company 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, prosecutions commenced or fines incurred during the financial year.

15. 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 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:

	2020 $	2019 $
Other assurance services		
PricewaterhouseCoopers Australian firm	–	–
Total remuneration for other assurance services	–	–
Other services		
Total remuneration for other services	–	–
Total remuneration for non-audit services	–	–

16. 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 37.

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

Dr M P Goldsworthy
CEO/MD

Mr C A Roy
Chair

Sydney, 27 August 2020

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2020, 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.

David Ronald
Partner
PricewaterhouseCoopers

Sydney
27 August 2020

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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 Company has also implemented a number of the new principles and recommendations contained in the 4th Edition of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations that were released in February 2019. The Company will report against the recommendations contained in the 4th Edition for the year ending 30 June 2021.

The 2020 Corporate Governance Statement is dated as at 30 June 2020 and reflects the corporate governance practices in place throughout the 2020 financial year. The 2020 Corporate Governance Statement was approved by the Board and lodged with the ASX Appendix 4G on 27 August 2020. 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 2020

CONTENTS

FINANCIAL STATEMENTS

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 2020. 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

SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES

ABN 69 003 372 067

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2020

	Note	2020 $	2019 $
Royalty revenue – sale of cREO™ technology	3	**581,724**	570,184
Interest revenue	3	**419,482**	744,560
Revenue from continuing operations		**1,001,206**	1,314,744
Other income	4	**1,238,157**	1,012,006
Research and development materials		**(292,102)**	(240,153)
Development expenditure		**(4,547,376)**	(1,984,328)
Finance costs		**(9,662)**	(7)
Depreciation and amortisation expense		**(356,845)**	(52,746)
Employee benefits expense		**(3,563,479)**	(3,614,476)
Consultants and professional fees		**(769,308)**	(680,867)
Printing, postage, freight, stationery and communications		**(69,439)**	(63,131)
Rent, utilities and property outgoings		**(24,317)**	(394,392)
Net foreign exchange losses		**(82,194)**	–
Net impairment losses		**(2,909)**	(8,553)
Other expenses from continuing activities		**(326,914)**	(441,205)
(Loss) before income tax expense		**(7,805,182)**	(5,153,108)
Income tax expense		**–**	–
Net (loss) from continuing operations		**(7,805,182)**	(5,153,108)
Net (loss) for the year		**(7,805,182)**	(5,153,108)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		**(7,805,182)**	(5,153,108)

	Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	**(4.5)**	(3.0)
Diluted earnings per share	**(4.5)**	(3.0)
Earnings per share for (loss) attributable to the ordinary equity holders of the company		
Basic earnings per share	**(4.5)**	(3.0)
Diluted earnings per share	**(4.5)**	(3.0)

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 2020

	2020 $	2019 $
Net (loss) for the year	**(7,805,182)**	(5,153,108)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**230,232**	868,845
Items that will not be reclassified to profit or loss:		
Changes in the fair value of equity investments at fair value through other comprehensive income	**(1,926,619)**	(6,766,261)
Other comprehensive income for the year, net of tax	**(1,696,387)**	(5,897,416)
Total comprehensive income for the year	**(9,501,569)**	(11,050,524)
Attributable to:		
Owners of Silex Systems Limited	**(9,501,569)**	(11,050,524)
Total comprehensive income for the year	**(9,501,569)**	(11,050,524)

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2020

	30 June 2020 $	30 June 2019 $
Assets		
Current assets		
Cash and cash equivalents	**1,615,034**	2,653,590
Other financial assets at amortised cost – term deposits	**16,800,000**	22,200,000
Trade and other receivables	**1,732,168**	1,900,118
Other current assets	**398,121**	409,144
Financial assets at fair value through other comprehensive income	**8,521,234**	10,240,588
Total current assets	**29,066,557**	37,403,440
Non-current assets		
Right-of-use assets	**47,738**	–
Property, plant and equipment	**271,500**	113,924
Total non-current assets	**319,238**	113,924
Total assets	**29,385,795**	37,517,364
Liabilities		
Current liabilities		
Trade and other payables	**1,095,601**	719,337
Lease liabilities	**43,755**	–
Provisions	**750,828**	745,039
Total current liabilities	**1,890,184**	1,464,376
Non-current liabilities		
Lease liabilities	**4,347**	–
Provisions	**25,059**	18,802
Total non-current liabilities	**29,406**	18,802
Total liabilities	**1,919,590**	1,483,178
Net assets	**27,466,205**	36,034,186
Equity		
Contributed equity	**232,645,003**	231,750,374
Reserves	**10,470,065**	12,127,493
Accumulated losses	**(215,648,863)**	(207,843,681)
Total equity	**27,466,205**	36,034,186

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 2020

	Attributable to owners of Silex Systems Limited			
	Contributed equity $	Reserves $	Accumulated losses $	Total $
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**
Net (loss) for the year	–	–	(7,805,182)	(7,805,182)
Other comprehensive income	–	(1,696,387)	–	(1,696,387)
Total comprehensive income for the year	**–**	**(1,696,387)**	**(7,805,182)**	**(9,501,569)**
Transactions with owners in their capacity as owners				
Shares issued, net of transactions costs	894,629	–	–	894,629
Employee share options – value of employee services	–	38,959	–	38,959
	894,629	**38,959**	**–**	**933,588**
Balance at 30 June 2020	**232,645,003**	**10,470,065**	**(215,648,863)**	**27,466,205**

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 2020

	2020 $	2019 $
Cash flows from operating activities		
Receipts from customers and government grants (inclusive of GST)	**2,172,673**	1,076,195
Payments to suppliers and employees (inclusive of GST)	**(9,653,778)**	(8,873,680)
Interest received	**649,904**	810,178
Interest paid	**(9,662)**	(7)
Net cash (outflows) from operating activities	**(6,840,863)**	(6,987,314)
Cash flows from investing activities		
Proceeds from other financial assets at amortised cost – term deposits	**5,400,000**	7,651,837
Payments for property, plant and equipment	**(237,405)**	(46,381)
Proceeds from sale of property, plant and equipment	**–**	27,273
Net cash inflows from investing activities	**5,162,595**	7,632,729
Cash flows from financing activities		
Proceeds from issue of shares, net of transaction costs	**894,629**	–
Repayment of principal elements of leases	**(256,545)**	–
Net cash inflows from financing activities	**638,084**	–
Net (decrease)/increase in cash and cash equivalents	**(1,040,184)**	645,415
Cash and cash equivalents at the beginning of the financial year	**2,653,590**	2,002,145
Effects of exchange rate changes on cash	**1,628**	6,030
Cash and cash equivalents at end of year*	**1,615,034**	2,653,590
*Term deposits excluded from Cash and cash equivalents	**16,800,000**	22,200,000

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

NOTE 1 SIGNIFICANT CHANGES IN THE CURRENT ACCOUNTING PERIOD

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

In December 2019, Silex launched a new project for the production of high-purity 'Zero-Spin Silicon' (ZS-Si) for the fabrication of next generation processor chips which will power silicon-based quantum computers. The launch of the project was marked by the signing of an Offtake Agreement between Silex and Silicon Quantum Computing Pty Ltd (SQC), which includes SQC making three annual payments of $300,000 as an offset against future purchases of ZS-Si produced by Silex, the first of which was received in December 2019. Furthermore, SQC signed a Subscription Agreement with Silex which resulted in SQC acquiring, through a private placement for $900,000, 2.3 million fully paid ordinary shares in the capital of Silex bringing the total value of the transaction to $1.8m. The Silex shares were issued to SQC in January 2020. The three-year ZS-Si project was also awarded a $3m Federal Government funding grant from the CRC-P in February 2020 and is due for completion at the end of CY2022.

The COVID-19 global pandemic has created significant uncertainty and challenges. In March 2020, Silex announced the implementation of numerous measures in response to a temporary curtailment of the Company's activities as a result of COVID-19. The measures focused on the health, safety and wellbeing of staff and cost reduction measures to preserve cash. Operational measures included the reduction of working hours for all employees and the Company's executives volunteering to utilise leave balances whilst continuing to work full-time. The Company's facility at Lucas Heights has remained open, albeit at a reduced level of activities while the abovementioned measures were in place. The landlord of the Silex Lucas Heights facility graciously granted some rent relief during the year. In Wilmington, operations at GLE's Test Loop facility were suspended in March for several weeks while appropriate safe work protocols were put in place.

The Company successfully applied for the Federal Government's JobKeeper program and was assessed as eligible on 27 April 2020 with payment backdated to 30 March 2020. The Company also received the Federal Government's Temporary Cash Boost for Employers and a reduction in payroll tax from the NSW state government. The total government financial assistance provided to the Company as a result of COVID-19 for the year ended 30 June 2020 was approximately $200,000 with part of this not received until after 30 June 2020.

NOTE 2 SEGMENT INFORMATION

	Silex Systems $	Translucent $	Silex USA $	Total $
2020				
Total segment revenue	496,018	1,631,268	–	2,127,286
Inter-segment revenue	(76,536)	(1,049,544)	–	(1,126,080)
Revenue from external customers	**419,482**	**581,724**	**–**	**1,001,206**
Segment result	**(3,794,933)**	**568,674**	**(4,578,923)**	**(7,805,182)**
Total segment assets	**19,695,751**	**9,442,811**	**247,233**	**29,385,795**
Total segment liabilities	**1,662,515**	**9,842**	**247,233**	**1,919,590**
2019				
Total segment revenue	790,191	1,529,370	–	2,319,561
Inter-segment revenue	(45,631)	(959,186)	–	(1,004,817)
Revenue from external customers	**744,560**	**570,184**	**–**	**1,314,744**
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**

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:

	2020 $	2019 $
Segment result	**(7,805,182)**	(5,153,108)
Net (loss) before income tax from continuing operations	**(7,805,182)**	(5,153,108)

NOTE 3 REVENUE FROM CONTINUING OPERATIONS

	2020 $	2019 $
Royalty revenue – sale of cREO™ technology	**581,724**	570,184
Interest revenue	**419,482**	744,560
	1,001,206	1,314,744

NOTE 4 OTHER INCOME

	2020 $	2019 $
Research and development tax incentive	**841,144**	958,879
Cooperative Research Centres Project (CRC-P) Grant	**223,963**	–
Government Assistance – COVID-19 related	**173,050**	–
Profit on sale of property, plant and equipment	**–**	27,273
Foreign currency exchange gains (net)	**–**	25,854
	1,238,157	1,012,006

NOTE 5 DIVIDENDS

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

NOTE 6 CONTINGENT LIABILITIES

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

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

NOTE 7 EVENTS OCCURRING AFTER REPORTING DATE

Between 30 June 2020 and the date of this report, the IQE Plc share price (AIM: IQE) has increased significantly. Combined with movements in exchange rates, the value of the shares held at 30 June 2020 (disclosed as Financial assets at fair value through other comprehensive income) has increased by approximately $1,400,000 since 30 June 2020. 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 2020 will be recognised in the financial statements for the year ended 30 June 2021.

There continues to be significant uncertainty associated with the potential impacts of the COVID-19 pandemic. Although full-time operations resumed at the Company's Lucas Heights facility from 1 July, the Company continues to review the evolving COVID-19 situation with a view to making additional changes to operations if needed and/or if advised by the Federal and NSW Governments. Consideration with respect to any prolonged impact of the pandemic is ongoing.

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 2020. 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 standard for the first time for the annual reporting period commencing 1 July 2019:

- AASB 16 *Leases*

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

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

(b) Practical expedients applied

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

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

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company has relied on its assessment made applying AASB117 *Leases* and Interpretation 4 *Determining whether an Arrangement contains a Lease*.

(c) Measurement of lease liabilities

The operating lease liability recognised at 1 July 2019 of $255,235 equates to the operating lease commitments disclosed at 30 June 2019 ($264,858) after discounting on 1 July 2019. Current lease liabilities were $248,674 and non-current lease liabilities were $6,561.

(d) Measurement of right-of-use assets

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

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

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

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

(f) Classification in consolidated income statement

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

(g) The Company's leasing activities and how these are accounted for

The Company leases buildings and equipment. Rental contracts are generally for fixed periods of 1 year to 3 years but may have extension options.

Until 30 June 2019, leases were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance costs are charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made before the commencement date less any lease incentives received; and
- any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

The landlord of the Silex Lucas Heights facility graciously granted some rent relief during the year. This rent reduction has been treated as a variable lease payment with the forgiven amount being derecognised as a lease liability and taken to profit.

DIRECTORS' DECLARATION

30 June 2020

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2020 as set out on pages 39 to 49 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 2020. 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

Mr C A Roy
Chair

Sydney, 27 August 2020

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 2020 complies with Australian Auditing 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 2020 comprises:

- the consolidated balance sheet as at 30 June 2020
- 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 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 27 August 2020.

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 2020.

Our opinion on the remuneration report

We have audited the remuneration report included in pages 25 to 34 of the directors' report for the year ended 30 June 2020.

In our opinion, the remuneration report of Silex Systems Limited for the year ended 30 June 2020 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

David Ronald
Partner

Sydney
27 August 2020

SHAREHOLDERS' INFORMATION

INFORMATION RELATING TO SHAREHOLDERS AS AT 17 AUGUST 2020

(a) Distribution schedule of equity securities

	Shares	Options
1–1,000	1,813	–
1,001–5,000	2,161	–
5,001–10,000	705	–
10,001–100,000	962	11
100,001 and over	212	4
Total number of holders of each class of security	**5,853**	**15**

Number of total holding less than a marketable parcel of shares	1,315

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030

(b) Names of twenty largest quoted equity security holders as at 17 August 2020

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.25%
Mr Paul Cozzi	6,700,000	3.88%
Majenta Holdings Pty Ltd	5,703,923	3.30%
Polly Pty Ltd	4,073,863	2.36%
Hillboi Nominees Pty Ltd	3,889,884	2.25%
Throvena Pty Ltd	2,978,203	1.72%
Hamlac Pty Ltd	2,525,937	1.46%
Mr Christopher David Wilks	2,405,070	1.39%
Silicon Quantum Computing Pty Ltd	2,300,000	1.33%
Quintal Pty Ltd	2,002,952	1.16%
HSBC Custody Nominees (Australia) Limited	1,812,190	1.05%
Sporran Lean Pty Ltd	1,809,999	1.05%
Deering Nominees Pty Ltd	1,700,000	0.98%
Morgan Stanley Australia Securities (Nominee) Pty Limited	1,540,340	0.89%
Mr Peter James Thomas + Ms Helen Thomas	1,350,000	0.78%
J P Morgan Nominees Australia Pty Limited	1,335,041	0.77%
Mr Xiangyang Wu	1,294,400	0.75%
Citicorp Nominees Pty Limited	1,201,638	0.70%
Eugob Nominees Pty Ltd	1,200,000	0.69%
Sabretache Pty Limited	1,125,000	0.65%
	76,749,470	**44.42%**

SHAREHOLDERS' INFORMATION

(c) Voting rights

The voting rights attaching to each class of equity securities are set out below:

- Ordinary shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- Options: No voting rights.

(d) Securities subject to voluntary escrow as at 17 August 2020

As at 17 August 2020, 2,300,000 shares were subject to voluntary escrow. The escrow period ends 6 January 2022.

(e) Unquoted equity securities as at 17 August 2020

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Incentive Plan	1,260,000	15

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

Building 64, Lucas Heights
Science & Technology Centre
New Illawarra Road
Lucas Heights NSW 2234, Australia

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NSW 2234, Australia

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+61 2 9704 8851
investor.relations@silex.com.au
www.silex.com.au

SHARE REGISTRY

Computershare Registry Services Pty Limited

Level 5, 115 Grenfell Street, Adelaide, South Australia 5000, Australia

GPO Box 1903 Adelaide
South Australia 5001, Australia

Enquiries:
Within Australia: 1300 556 161
Outside Australia: +61 8 8236 2300

web.queries@computershare.com.au
www.computershare.com.au

STOCK EXCHANGE

Listed on the Australian Stock Exchange, Ticker: SLX

Listed on the OTCQX International, Ticker: SILXY

AUDITORS

PricewaterhouseCoopers

SOLICITORS

Dentons Australia Limited

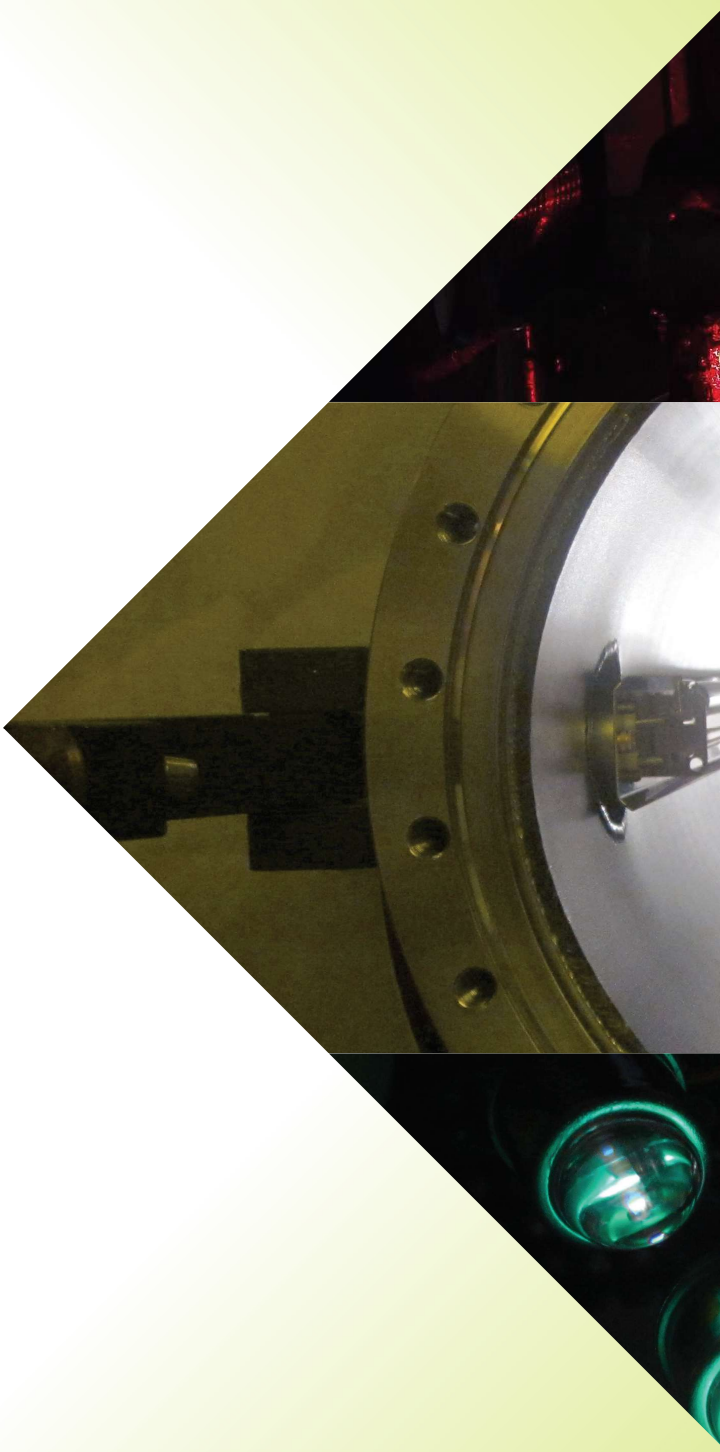
BANKERS

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



Silex

www.silex.com.au