Silex Systems Limited

ABN 69 003 372 067

Financial Report
for the year ended 30 June 2018

Company Directory

Directors
Dr L M McIntyre – Chair
Dr M P Goldsworthy – CEO/MD
Mr R A R Lee
Mr C D Wilks

Audit Committee
Mr R A R Lee – Chair
Dr L M McIntyre
Mr C D Wilks

People & Remuneration Committee
Dr L M McIntyre – Chair
Mr R A R Lee
Mr C D Wilks

Company Secretary
Ms J E Ducie

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Share Registry
Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide, South Australia 5000, Australia
GPO Box 1903 Adelaide SA 5001, Australia

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 8 8236 2300
Email: web.queries@computershare.com.au
Website: www.computershare.com.au

Stock Exchange
Listed on the Australian Stock Exchange, Ticker: SLX
Listed on the OTCQX International, Ticker: SILXY

Auditors
PricewaterhouseCoopers

Solicitors
Baker & McKenzie

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

IMPORTANT NOTICE:

Forward Looking Statements and Business Risks:

Silex Systems Limited (Silex) is a research and development company whose primary asset is the SILEX laser uranium enrichment technology, originally developed at the Company's technology facility in Sydney, Australia. The SILEX technology, which has been licensed exclusively since 2006 to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA, has reached an advanced stage of development. However, in view of the continuing depressed market conditions leading to the Company's 12 June 2018 announcement to withdraw from the GLE restructure, plans for commercial deployment are now highly speculative and extremely uncertain.

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 also remains subject to technology and market risks.

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

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

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 2018.

1. Directors

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

Dr L M McIntyre - Chair
Dr M P Goldsworthy
Mr R A R Lee
Mr C D Wilks

2. Principal activities

Silex is primarily focused on the development of the SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry. The development and commercialisation program has been undertaken jointly by Silex at its Lucas Heights facility and in Wilmington, North Carolina by GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive licensee of the SILEX technology since 2006. After the Company's June 2018 announcement regarding its withdrawal from the restructure of GLE, the future of this program is currently uncertain.

3. Dividend

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

4. Review of operations and activities

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

Trading Results

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

	2018 $	2017 $
Revenue from continuing operations	1,060,295	1,627,281
(Loss) before income tax expense	(4,579,381)	(10,257,843)
Income tax expense	-	-
Net (loss) from continuing operations	(4,579,381)	(10,257,843)
Net profit from discontinued operations	-	138,912
Net (loss) for the year	(4,579,381)	(10,118,931)
Net (loss) is attributable to:		
Owners of Silex Systems Limited	(4,579,381)	(10,118,931)

Key information about the consolidated operations, results and financial position

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

Despite concerted efforts to restructure licensee GLE, on 12 June 2018 Silex announced that it had terminated the Term Sheet with GE-Hitachi Nuclear Energy (GEH) with regard to Silex potentially acquiring GEH's 76% interest in GLE. The overarching factor which contributed to the decision to terminate the Term Sheet is the current negative state of the global nuclear fuel markets. As a result of termination of the Term Sheet, Silex's funding obligations for GLE's operations (approximately $0.6m per month) ceased and development activities at GLE's Wilmington Test Loop facility were suspended.

The assessment of various options to preserve value created in the SILEX technology over the last decade, including the Test Loop demonstration facility and associated intellectual property based in Wilmington, North Carolina, continue to be explored with the shareholders of GLE, together with the governments of Australia and the US. However, in view of the depressed state of the global nuclear fuel markets, any preservation plan will necessarily involve either a significant reduction in US-based activities, or a cessation of all US-based activities and repatriation of the SILEX technology to Australia.

The Company is also reducing the scale of its technology development activities at its Lucas Heights facility and reducing operational cash burn in FY2019. A number of staff have recently been made redundant and the Company will consolidate its operations with the relocation of the small corporate office from Sydney city to the Lucas Heights facility in October 2018.

In March 2018, the global leader in the design and manufacture of advanced semiconductor wafer products, IQE Plc (AIM: IQE) elected to purchase Silex subsidiary Translucent Inc's semiconductor material technology known as 'Rare Earth Oxides' (cREO™). The cREO™ technology has numerous potential applications in the manufacture of next generation devices in the semiconductor, digital communications and power electronics industries. The election was made in accordance with the 2015 License and Assignment Agreement between Translucent and IQE and as a result, US$5 million worth of IQE shares was received in September 2018. In addition, a perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology, with minimum annual royalties starting at US$400,000 due to commence being paid in FY2020.

Financial review

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

	2018 $	2017 $
Revenue from continuing operations	1,060,295	1,627,281
Other income	7,552,662	940,847
Research and development materials	(382,999)	(207,498)
Development expenditure	(5,799,314)	(6,668,102)
Employee benefits expense	(3,866,174)	(3,818,168)
Consultants and professional fees	(2,066,401)	(1,081,456)
Rent, utilities and property outgoings	(419,164)	(395,751)
Other expenses	(658,286)	(654,996)
Income tax expense	-	-
Net (loss) from continuing operations	(4,579,381)	(10,257,843)
Net profit from discontinued operations	-	138,912
Net (loss) for the year	(4,579,381)	(10,118,931)

The net loss from ordinary activities was $4.6m compared to $10.1m in the prior year. The net loss is comprised of the loss from continuing operations of $4.6m (a decrease of $5.7m compared to the prior year) and the profit from discontinued operations of $nil (compared to a profit of $0.1m in the prior year). The decrease in net loss from ordinary activities is mainly due to the $6.4m income from the sale of Translucent's cREO™ technology.

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

Continuing Operations - Silex Systems and Translucent
The loss from continuing operations decreased by $5.7m to $4.6m, largely as a result of the reclassification of Translucent as a continuing operation following the election by IQE to acquire Translucent's cREO™ technology in March 2018 and the potential perpetual royalty stream that may be received in the future.

With respect to the Silex Systems segment, the result was a $10.6m loss in the current year compared to a $10.2m loss in the prior year. Of note was the increase in Consultants and professional fees of $0.7m largely as a result of the work undertaken with respect to the GLE restructure.

The Translucent segment result was a $6.1m profit in the current year compared to a $0.05m loss in the prior year. The current year result included $6.4m profit on sale of assets to IQE Plc following IQE's exercise of the option to acquire Translucent's cREO™ technology in March 2018.

Balance sheet

A summary of our balance sheet is set out below:

	30 June 2018 $	30 June 2017 $
ASSETS		
Total current assets	49,668,457	44,520,749
Total non-current assets	119,178	7,367,498
Total assets	49,787,635	51,888,247
LIABILITIES		
Total current liabilities	2,588,070	2,479,087
Total non-current liabilities	118,501	116,892
Total liabilities	2,706,571	2,595,979
Net assets	47,081,064	49,292,268
EQUITY		
Total equity	47,081,064	49,292,268

As at 30 June 2018, total assets were $49.8m. Significant assets are cash holdings of $31.9m (cash and term deposits), and Available-for-sale financial assets of $9.4m. Total liabilities were $2.7m and included trade and other payables of $1.9m.

5. Earnings per share

	2018 Cents	2017 Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	(2.7)	(6.0)
Diluted earnings per share	(2.7)	(6.0)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		
Basic earnings per share	(2.7)	(5.9)
Diluted earnings per share	(2.7)	(5.9)

6. Significant changes in state of affairs

On 12 June 2018, Silex announced that it had decided to withdraw from the acquisition of a majority stake in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The Board decided that there remained too many risks associated with GLE's business case and that an investment in GLE and the ongoing expenditure that this would entail would not be in the best interests of shareholders. The announcement followed the termination of the Term Sheet to acquire GE-Hitachi's 76% interest in GLE on 11 June 2018 and the cessation of Silex's funding obligations for GLE's operations.

The financial position and performance of the Company was favourably impacted by IQE Plc's decision to exercise its option to purchase Translucent's cREO™ technology in March 2018 for US$5 million. In accordance with the License and Assignment Agreement, a perpetual royalty will also be payable to Translucent on the sale of IQE products that utilise Translucent's cREO™ technology. Minimum annual royalties starting at US$400,000 are due to commence being paid in FY2020. As a result, the Translucent operation has been reclassified as a continuing operation (and as a reportable segment) with the prior year amounts reclassified.

7. Matters subsequent to the end of the financial year

Following the announcement regarding the Company's termination of the Term Sheet with GEH on the 12 June 2018, a number of operational decisions were made in July 2018 to rationalise activities and reduce anticipated operational cash burn from FY2019 onwards. Actions taken to date include a headcount reduction of more than 40% at our Lucas Heights facility, and the planned consolidation of our operations with the relocation of our small corporate office to the Lucas Heights facility in October 2018. The one-off expenses associated with these initial restructuring decisions is expected to be approximately $180,000.

Between 30 June 2018 and the date of this report, the IQE Plc share price (AIM: IQE) has decreased significantly. Combined with movements in exchange rates, the value of the shares held at 30 June 2018 (disclosed as Available-for-sale financial assets) has decreased by approximately $1,630,000 since 30 June 2018. Gains or losses arising from changes in the fair value of shares classified as available-for-sale are recognised in other comprehensive income. The financial effects of the movements in fair value since 30 June 2018 will be recognised in the financial statements for the year ended 30 June 2019.

In September 2018, the group received US$5 million worth of shares in IQE from the sale of its cREO™ technology. Since receiving the shares, the IQE share price has fallen. Combined with movements in exchange rates from 30 June 2018, the value of this tranche of shares has decreased by approximately $480,000 compared to the value of the receivable at 30 June 2018. Consistent with the comments above, it is expected that the gains or losses arising from changes in the fair value of the shares will be recognised in other comprehensive income in the financial statements for the year ended 30 June 2019.

The consolidated entity is not aware of any other matters or circumstances which are not otherwise dealt with in the financial statements that have significantly, or may significantly, affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years other than those referred to in this Directors' Report.

8. Likely developments and expected results of operations

Overview

The primary focus of Silex is the development of the SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry. The development and commercialisation program has been undertaken jointly by Silex at its Lucas Heights facility and in Wilmington, North Carolina by GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology from 2006. GLE has been undergoing a restructure since 2016 involving Silex potentially acquiring all of GEH's 76% interest. However, it was announced on 12 June 2018, that the Term Sheet with GEH concerning this restructure was terminated and that Silex had withdrawn from the GLE restructure.

The overarching factor which contributed to the decision to withdraw from the restructure of exclusive Licensee GLE, was the continuing negative state of the global nuclear fuel markets, which have deteriorated steadily since the Fukushima event in 2011. As a result of the termination of the Term Sheet, changes have been made to the commercialisation program for the SILEX technology with the suspension of development activities in the US and a reduction of the development program at the Company's Lucas Heights facility.

The assessment of various options to preserve value created in licensee GLE over the last decade, including the Test Loop demonstration facility and associated intellectual property based in Wilmington, North Carolina, continues. In the event that activities cease in the US, it is likely that the Amended and Restated Technology Commercialisation and License Agreement, signed in 2013 with GLE will be terminated. Therefore, the future of the commercialisation program for the SILEX technology and value and timing of any potential milestone payments and royalties under the License Agreement is highly uncertain.

Subsequent to 30 June 2018, several operational decisions have been made by the Company to rationalise operations. These include more than a 40% headcount reduction at our Lucas Heights facility, and the planned consolidation of our operations with the relocation of our small corporate office to the Lucas Heights facility in October 2018. Further possible restructuring actions are currently under consideration.

The global leader in the design and manufacture of advanced semiconductor wafer products, IQE Plc elected to purchase Silex subsidiary Translucent Inc's semiconductor cREO™ technology in March 2018. As a result, a payment of US$5 million was received in September 2018 (in IQE shares). The cREO™ technology has numerous potential applications in the manufacture of next generation devices in the semiconductor, digital communications and power electronics industries. IQE is committed to the potential of the cREO™ technology and continue to spend significant amounts on the development of cREO™ and other complementary materials technologies. Whilst the timelines to commercialisation are uncertain and subject to change, IQE believes that an optimal route to cREO™ commercialisation should occur within a 2 to 3-year timeframe. A perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology, with minimum annual royalties starting at US$400,000 due to commence being paid in FY2020.

Business strategies and future prospects

The SILEX Technology

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

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

We continue to assess various options to preserve the SILEX technology and value created in GLE in the US over the last decade. However, in view of the depressed state of the nuclear fuel markets, any preservation plan will necessarily involve either a significant reduction in US-based activities, or a cessation of all US-based activities and repatriation of the SILEX technology to Australia. Until the future of the technology in the US is resolved, we anticipate that the SILEX Amended and Restated Technology Commercialisation and License Agreement signed in 2013 between GLE and Silex, and the agreement signed in 2016 between the US Department of Energy and GLE for the Paducah opportunity, will both remain in force.

We intend to continue to promote the merits of the SILEX technology, and we are hopeful of maintaining a position in the US in order to be able to ramp-up the development program again and participate in the forecasted recovery of the global nuclear fuel market in the years ahead. Accordingly, the focus of our strategy going forward will involve:

- Preserving value and optionality for the future commercialisation of the SILEX technology;
- Maintaining our profile in the US, which remains the best target market for eventual deployment of the SILEX technology;
- Retaining our core expertise in the SILEX technology at a reduced level; and
- Focusing on effective cost management to ensure the most efficient use of cash reserves.

Numerous challenges and risks continue to be faced by the Company as we look to implement a revised strategy for the SILEX technology. Ultimately, the future of the technology and likelihood of success in the remaining commercialisation program is intrinsically tied to a recovery in the global markets for natural and enriched uranium.

Status of Nuclear Fuel Markets

The market for global nuclear fuel has deteriorated steadily since the Fukushima event in 2011 and this was the overarching factor that led to the Company's termination of the Term Sheet with GEH for the potential acquisition of GEH's 76% interest in GLE. In addition to the continued disruption to the Japanese nuclear industry, with only 9 out of around 40 operable reactors restarted, the impact has also been felt in several countries in Western Europe, Asia and the US, where the share of nuclear power generation is set to decrease under current government policies and/or economic pressures. As a result, demand for enrichment and uranium remains low and prices continue to be depressed.

Despite this, there are currently more new nuclear power plants under construction globally than has been seen in the last 20 years with 55 reactors currently under construction. Leading this effort are several countries including China, India, Russia and the UAE who are undertaking significant expansion of their nuclear energy programs. Therefore, looking to the medium term and beyond, demand for nuclear fuel and specifically demand for uranium and enriched uranium is anticipated to recover. This will be supported not only by the 55 reactors currently under construction but a further 152 reactors that are planned, most with approvals, funding or commitments in place.

The cREO™ Technology

In March 2018, IQE Plc (AIM: IQE) elected to purchase the cREO™ technology, in accordance with the 2015 License and Assignment Agreement signed between Translucent and IQE. A payment of US$5 million was received in September 2018 (in IQE shares) and the commencement of minimum royalty payments to follow from FY2020. IQE remain committed to the commercialisation of the cREO™ technology and continue to invest significantly in the development of the first products that will utilise the cREO™ technology for launch into the global market for advanced semiconductor wafer products. IQE believes that an optimal route to cREO™ commercialisation should occur within a 2 to 3-year timeframe.

Outlook

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

9. Information on Directors

a) *Directors' profiles*

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

Dr Lisa McIntyre BSc (Hons), PhD, GAICD. *Chair – Independent non-executive director*		
Experience and expertise	Independent non-executive director for six years and Chair for four years. Extensive experience as a Company Director. Other current directorship roles include icare NSW, HCF, Studiosity Pty Ltd, the University of Sydney and the NSW Generations Fund Advisory Board. Executive career in strategy, commercialisation and performance support as a senior partner of global strategy firm L.E.K. Consulting for 20 years.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	Non-executive director of Cover-More Group Limited from November 2013 to April 2017	
Special responsibilities	Chair of the Board Member of Audit Committee Chair of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	48,230
	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-six years. Founder of the Company and co-inventor of the SILEX uranium enrichment technology.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chief Executive Officer / Managing Director	
Interests in shares and options	Ordinary shares – Silex Systems Limited	5,979,055
	Options over ordinary shares – Silex Systems Limited	Nil

Mr Christopher Wilks BComm, FAICD. *Non-executive director*		
Experience and expertise	Non-executive director for thirty years. Finance director and CFO of Sonic Healthcare Limited. Various other directorships of public companies held over the last thirty 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

Mr Robert Lee BSc MBA, GAICD. *Independent non-executive director*		
Experience and expertise	Independent non-executive director for three years. Experienced company director, corporate adviser and former Executive Director of Macquarie Group Limited. Currently a non-executive director of Westmead IVF and Maple-Brown Abbott Limited.	
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	Nil
	Options over ordinary shares – Silex Systems Limited	Nil

10. Meetings

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

	Directors' Meetings		Audit Committee Meetings		People & Remuneration Committee Meetings	
Director's name	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
Dr L M McIntyre	16	16	2	2	2	2
Dr M P Goldsworthy	16	16	*	*	*	*
Mr R A R Lee	16	15	2	2	2	2
Mr C D Wilks	16	15	2	2	2	2

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

11. Remuneration Report

Dear Fellow Shareholders,

On behalf of the Board and as Chair of the Company's People and Remuneration Committee, I am pleased to present to you the FY2018 Silex Systems Limited Remuneration Report, for which we seek your support at our Annual General Meeting in November 2018.

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 following comments aim to provide greater insight into the Committee's remuneration decisions with respect to FY2018 and our remuneration policies and practices generally.

The year ended 30 June 2018 was another very challenging year for Silex and we have sought to rationalise our operations in light of the strategic challenges that face us now and in the years ahead. We have again made some difficult decisions with respect to the remuneration of the Company's KMP. No remuneration increases were awarded for FY2018 or FY2019 year for our CEO/MD, CFO/Company Secretary or our Board. This is a disappointing but necessary outcome and does not reflect the extraordinary dedication and time contributed to the Company's activities by our Management and Board over the past few years. We also sought to contain KMP remuneration and therefore did not issue our CEO/MD or CFO/Company Secretary a Short-Term or Long-Term Incentive for FY2018.

Being mindful of the difficulties faced by the Company, my fellow Directors and I also continue to not receive fees for Committee participation or for the extraordinary time contributed to the Company's activities. I would also like to take this opportunity to thank our CEO and CFO, my fellow Directors, and our whole team for the tremendous efforts they have made throughout the past year.

As we look to FY2019, we have taken another step with the suspension of all incentive plans until the Company secures a clear path forward for its ongoing operations. We have planned a full review of executive and Board roles and remuneration within the Company and will potentially adjust in accordance with the anticipated reduced activity level of the Company.

On behalf of the Board, I invite you to review the full report and thank you for your continued support during these difficult times. I look forward to answering any questions you may have at our Annual General Meeting in November 2018.

Lisa McIntyre

Dr Lisa McIntyre
Chair, People & Remuneration Committee

The Directors present the Remuneration Report for the year ended 30 June 2018, 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.

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 2017 Annual General Meeting
e) Executive KMP remuneration structure
f) Link between FY2018 remuneration and performance
g) Contractual arrangements with executive KMPs
h) Non-executive directors' remuneration
i) Directors' and KMP remuneration
j) Details of share-based compensation and bonuses

a) Directors and KMP disclosed in this report

The 2018 Remuneration Report has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001* and accounting standard requirements and applies to KMP of the Company. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Company.

Name	Position
Non-executive and executive directors	
Dr L M McIntyre	Chair and Non-executive director
Dr M P Goldsworthy	CEO/Managing Director – Executive director
Mr R A R Lee	Non-executive director
Mr C D Wilks	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 currently comprised of a majority of independent non-executive directors. 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 were as follows:

Committee members	Dr L M McIntyre – Chair Mr R A R Lee Mr C D Wilks
Committee secretary	Ms J E Ducie
Number of meetings in FY2018	2
Other individuals who regularly attended meetings	Dr M P Goldsworthy – CEO/MD

The role of the People & Remuneration Committee is to:

- Review and recommend to the Board the appropriate remuneration policies and practices that are competitive and reasonable for the Company and its specific application to KMP, as well as the general application to all employees;
- Determine remuneration levels of the CEO/MD and CFO/Company Secretary;
- 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.

Use of remuneration consultants

The Company did not engage remuneration consultants during FY2018. In the past, the Company has engaged AON Hewitt to conduct a thorough review of KMP and Board remuneration and structure. The recommendations from the most recent review were fully implemented during FY2015 and FY2016. The Company continues to access 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 in which they were recruited.

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 is conducted in consultation with independent remuneration consultants where appropriate.

For FY2018, executive KMP remuneration comprised Total fixed remuneration (TFR) only. At-risk Short-term incentive (STIs) and Long-term incentives (LTIs) were not offered to the CEO/MD or CFO/Company Secretary. At this time, it has also been determined that no incentives will be granted until further notice.

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.

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 based on share price performance or other factors.

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 2017 Annual General Meeting

Silex Systems Limited received more than 98% of "yes" votes on its Remuneration Report for the 2017 financial year.

e) Executive KMP remuneration structure

For FY2018, executive KMP remuneration packages comprised total fixed remuneration (TFR) only.

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

For FY2018, the TFR for our CEO/MD and CFO/Company Secretary remained unchanged.

No STIs or LTIs were granted during FY2018 to the CEO/MD or CFO/Company Secretary. For FY2019, all incentive plans have been suspended until the Company secures a clear path forward for its ongoing operations.

A full review of the executive KMP roles and remuneration has been planned in light of the anticipated reduced activity level of the Company.

f) Link between FY2018 remuneration and performance

FY2018 performance and impact on remuneration

The Company continued to face significant challenges throughout FY2018 and as a result sought to contain KMP remuneration. Given the ongoing uncertainty, it was deemed appropriate to not issue our CEO/MD and CFO/Company Secretary with a STI or LTI for FY2018. This was mutually agreed by the Board and the Company's KMP and does not reflect on the performance or commitment of our KMP to the execution of the Company's strategy.

Statutory performance indicators

We aim to align 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 no direct 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 $
2014	(17.3)	76,000	1.16
2015	(21.1)	322,400	0.46
2016	(2.0)	211,000	0.31
2017	(5.9)	12,500	0.37
2018	(2.7)	N/A	0.20

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 may be applicable at Board discretion 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 may be applicable at Board discretion
Termination of employment (with cause) or by the individual	STI/LTI not awarded	STI/LTI not awarded
Termination of employment due to redundancy	Potential ex-gratia payment at Board discretion pending review of final outcomes	Potential ex-gratia payment to partially reflect forfeited STI for FY2017, FY2018 and FY2019

h) Non-executive directors' remuneration

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

In FY2018, all non-executive directors agreed to continue to not receive committee fees (payment of committee fees suspended from 1 April 2016).

The aggregate non-executive directors' fees are reviewed periodically by the Board taking into account comparable roles and market data. The non-executive director's fees remain well within the limits of the shareholder approved aggregate directors fee pool maximum of $750,000, as approved by shareholders at the 2011 AGM. The Silex Board currently comprises three non-executive directors and an executive director. A full review of the Board size and composition has been planned in light of the anticipated reduced activity level of the Company.

The current fee structure is outlined below:

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

Additional fees may be payable to non-executive directors should they undertake specific consulting projects for the Company in the areas of their expertise. However, in light of the challenges facing the Company, all non-executive directors waived their right to receive additional consulting fees for additional services performed during the year.

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 - superannuation $	Cash bonus * $	Total $
Executive directors							
Dr M P Goldsworthy	2018	521,206	7,222	55,829	21,249	-	605,506
	2017	505,987	10,264	4,527	34,916	-	555,694
Non-executive directors							
Dr L M McIntyre	2018	100,000	-	-	9,500	-	109,500
	2017	100,000	-	-	9,500	-	109,500
Mr R A R Lee	2018	80,000	-	-	7,600	-	87,600
	2017	80,000	-	-	7,600	-	87,600
Mr C D Wilks	2018	80,000	-	-	7,600	-	87,600
	2017	85,416	-	-	8,115	-	93,531
Other key management personnel							
Ms J E Ducie	2018	302,551	-	(1,067)	22,449	-	323,933
	2017	295,084	-	16,123	29,916	12,500	353,623
Total executive directors and other KMP	2018	823,757	7,222	54,762	43,698	-	929,439
	2017	801,071	10,264	20,650	64,832	12,500	909,317
Total NED remuneration	2018	260,000	-	-	24,700	-	284,700
	2017	265,416	-	-	25,215	-	290,631
Total KMP remuneration	2018	1,083,757	7,222	54,762	68,398	-	1,214,139
	2017	1,066,487	10,264	20,650	90,047	12,500	1,199,948

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

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

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	
	2018	2017	2018	2017	2018	2017
Directors						
Dr L M McIntyre	100.0%	100.0%	N/A	N/A	N/A	N/A
Dr M P Goldsworthy	100.0%	100.0%	N/A	-	N/A	N/A
Mr R A R Lee	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
Other Executive KMP						
Ms J E Ducie	100.0%	96.5%	N/A	3.5%	N/A	N/A

j) Details of share-based compensation and bonuses

Options
No grant of options affected remuneration in the current reporting period or will affect remuneration in a future reporting period.

There were no options granted or any options exercised by any individual during FY2018 (or FY2017).

STI bonuses

No STI's were issued for the year ended 30 June 2018.

LTI deferred rights and cash incentives
No LTI's were in place for the year ended 30 June 2018.

Equity instruments 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:

2018 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 of Silex Systems Limited					
Dr L M McIntyre	48,230	-	-	-	48,230
Dr M P Goldsworthy	5,979,055	-	-	-	5,979,055
Mr R A R Lee	-	-	-	-	-
Mr C D Wilks	2,814,021	-	-	-	2,814,021
Other Executive KMP					
Ms J E Ducie	3,759	-	-	-	3,759

No options over ordinary shares in the Company were held by KMP of the Company at any time during the year ended 30 June 2018, including by entities related to them.

Shares under option
There were no unissued ordinary shares of Silex Systems Limited under option at the date of this report.

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.

12. Company secretary

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

13. Indemnification and insurance of directors

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

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

14. Environmental regulation

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

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

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:

	2018 $	2017 $
Other assurance services		
PricewaterhouseCoopers Australian firm		
Total remuneration for other assurance services	-	-
Other services		
Seminars and training courses	450	582
Total remuneration for other services	450	582
Total remuneration for non-audit services	450	582

16. Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

17. Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 22.

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

Dr M P Goldsworthy	Mr C D Wilks
CEO/MD	Director
Sydney, 28 September 2018	

Auditor's Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the 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

David Ronald
Partner
PricewaterhouseCoopers

Sydney
28 September 2018

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One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000
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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 2018 Corporate Governance Statement is dated as at 30 June 2018 and reflects the corporate governance practices in place throughout the 2018 financial year. The 2018 Corporate Governance Statement was approved by the Board and lodged with the ASX Appendix 4G on 28 September 2018. 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.

Silex Systems Limited
ABN 69 003 372 067

Annual financial report – 30 June 2018

Contents

This financial report covers the consolidated entity consisting of Silex Systems Limited and its subsidiaries. The financial report is presented in the Australian currency.

Silex Systems Limited is a company limited by its shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Silex Systems Limited
Suite 8.01, Level 8
56 Clarence St
Sydney NSW 2000
Australia

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 4 to 10, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 28 September 2018. The Directors have the power to amend and reissue the financial report.

	Note	2018 $	2017 $
Revenue from continuing operations	3	1,060,295	1,627,281
Other income	4	7,552,662	940,847
Research and development materials		(382,999)	(207,498)
Development expenditure		(5,799,314)	(6,668,102)
Finance costs	5	(8)	(11)
Depreciation and amortisation expense	5	(40,650)	(27,349)
Employee benefits expense		(3,866,174)	(3,818,168)
Consultants and professional fees		(2,066,401)	(1,081,456)
Printing, postage, freight, stationery and communications		(80,977)	(74,377)
Rent, utilities and property outgoings		(419,164)	(395,751)
Net foreign exchange losses		-	(155,223)
Other expenses from continuing activities		(536,651)	(398,036)
(Loss) before income tax expense		(4,579,381)	(10,257,843)
Income tax expense	6	-	-
Net (loss) from continuing operations		(4,579,381)	(10,257,843)
Net profit from discontinued operations	13	-	138,912
Net (loss) for the year		(4,579,381)	(10,118,931)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(4,579,381)	(10,118,931)

	Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	(2.7)	(6.0)
Diluted earnings per share	(2.7)	(6.0)
Earnings per share for (loss) attributable to the ordinary equity holders of the company		
Basic earnings per share	(2.7)	(5.9)
Diluted earnings per share	(2.7)	(5.9)

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

	2018 $	2017 $
Net (loss) for the year	(4,579,381)	(10,118,931)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
Changes in the fair value of available-for-sale financial assets	1,799,643	5,716,932
Exchange differences on translation of foreign operations	583,591	(53,342)
Other comprehensive income for the year, net of tax	2,383,234	5,663,590
Total comprehensive income for the year	(2,196,147)	(4,455,341)
Attributable to:		
Owners of Silex Systems Limited	(2,196,147)	(4,455,341)
Total comprehensive income for the year	(2,196,147)	(4,455,341)
Total comprehensive income for the period attributable to owners of Silex Systems Limited arises from:		
Continuing operations	(2,196,147)	(4,594,253)
Discontinued operations	-	138,912
	(2,196,147)	(4,455,341)

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

	Note	30 June 2018 $	30 June 2017 $
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	2,002,145	1,876,319
Held to maturity investments - term deposits	7(b)	29,851,837	40,801,837
Trade and other receivables	7(c)	8,452,352	1,842,593
Available-for-sale financial assets	7(d)	9,362,123	-
Total current assets		49,668,457	44,520,749
Non-current assets			
Available-for-sale financial assets	7(d)	-	7,284,502
Property, plant and equipment	7(e)	119,178	82,996
Total non-current assets		119,178	7,367,498
Total assets		49,787,635	51,888,247
LIABILITIES			
Current liabilities			
Trade and other payables	8(a)	1,892,751	1,846,984
Provisions	8(b)	695,319	632,103
Total current liabilities		2,588,070	2,479,087
Non-current liabilities			
Provisions	8(b)	118,501	116,892
Total non-current liabilities		118,501	116,892
Total liabilities		2,706,571	2,595,979
Net assets		47,081,064	49,292,268
EQUITY			
Contributed equity	9(a)	231,750,374	231,750,374
Reserves	9(b)	18,021,263	15,653,086
Accumulated losses	9(c)	(202,690,573)	(198,111,192)
Total equity		47,081,064	49,292,268

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

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	Attributable to owners of Silex Systems Limited			
	Contributed equity $	Reserves $	Accumulated losses $	Total $
Balance at 30 June 2016	231,752,170	9,989,496	(187,992,261)	53,749,405
Net (loss) for the year	-	-	(10,118,931)	(10,118,931)
Other comprehensive income	-	5,663,590	-	5,663,590
Total comprehensive income for the year	-	5,663,590	(10,118,931)	(4,455,341)
Transactions with owners in their capacity as owners				
Deferred tax recognised directly in equity	(1,796)	-	-	(1,796)
	(1,796)	-	-	(1,796)
Balance at 30 June 2017	231,750,374	15,653,086	(198,111,192)	49,292,268
Net (loss) for the year	-	-	(4,579,381)	(4,579,381)
Other comprehensive income	-	2,383,234	-	2,383,234
Total comprehensive income for the year	-	2,383,234	(4,579,381)	(2,196,147)
Transactions with owners in their capacity as owners				
Transactions with non-controlling interests	-	(15,057)	-	(15,057)
	-	(15,057)	-	(15,057)
Balance at 30 June 2018	231,750,374	18,021,263	(202,690,573)	47,081,064

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

	Note	2018 $	2017 $
Cash flows from operating activities			
Receipts from customers and government grants (inclusive of GST)		997,280	2,672,348
Payments to suppliers and employees (inclusive of GST)		(12,960,108)	(13,157,109)
Interest received		1,225,488	1,449,905
Interest paid		(8)	(11)
Net cash (outflows) from operating activities	10(a)	(10,737,348)	(9,034,867)
Cash flows from investing activities			
Payment for additional interest in subsidiary		(15,057)	-
Proceeds from held to maturity investments - term deposits		10,950,000	8,898,491
Payments for property, plant and equipment		(76,036)	(31,906)
Proceeds from sale of property, plant and equipment		-	289,100
Proceeds from sale of intangibles		-	175,000
Net cash inflows from investing activities		10,858,907	9,330,685
Cash flows from financing activities			
Net cash (outflows) from financing activities		-	-
Net increase in cash and cash equivalents		121,559	295,818
Cash and cash equivalents at the beginning of the financial year		1,876,319	1,581,746
Effects of exchange rate changes on cash		4,267	(1,245)
Cash and cash equivalents at end of year *		2,002,145	1,876,319
Non-cash investing and financing activities	10(b)		
Cash-flows of discontinued operations	13		
*Held to maturity investments excluded from Cash and cash equivalents		29,851,837	40,801,837

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 12 June 2018, Silex announced that it had decided to withdraw from the acquisition of a majority stake in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The Board decided that there remained too many risks associated with GLE's business case and that an investment in GLE and the ongoing expenditure that this would entail would not be in the best interests of shareholders. The announcement followed the termination of the Term Sheet to acquire GE-Hitachi's 76% interest in GLE on 11 June 2018 and the cessation of Silex's funding obligations for GLE's operations.

The financial position and performance of the Company was favourably impacted by IQE Plc's decision to exercise its option to purchase Translucent's cREO™ technology in March 2018 for US$5 million. In accordance with the License and Assignment Agreement, a perpetual royalty will also be payable to Translucent on the sale of IQE products that utilise Translucent's cREO™ technology. Minimum annual royalties starting at US$400,000 are also due to commence being paid in FY2020. As a result, the Translucent operation has been reclassified as a continuing operation (and as a reportable segment) with the prior year amounts reclassified.

Note 2 Segment information

(a) Description of segments

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

Management has determined that there are now two operating segments based on the reports reviewed by Management and the Board of Directors to make strategic decisions. These segments are Silex Systems and Translucent. Silex Systems is based in New South Wales and Translucent is based in North Carolina.

Solar Systems has been disclosed as a discontinued operation in note 13 and not as a reportable segment.

(b) Segment information provided to Management and the Board of Directors

The segment information provided to management and the Board of Directors for the reportable segments for the year ended 30 June 2018 is as follows:

2018	Silex Systems	Translucent	Total
	$	$	$
Total segment revenue	1,055,452	960,976	2,016,428
Inter-segment revenue	(84,000)	(872,133)	(956,133)
Revenue from external customers	971,452	88,843	1,060,295
Segment result	(10,630,713)	6,051,332	(4,579,381)
Depreciation and amortisation	40,650	-	40,650
Interest income	971,452	-	971,452
Interest expense	8	-	8
Income tax expense	-	-	-
Total segment assets	33,552,475	16,235,160	49,787,635
Total assets include:			
Additions to non-current assets (other than deferred tax)	76,036	-	76,036
Total segment liabilities	2,351,235	355,336	2,706,571

2017	Silex Systems $	Translucent $	Total $
Total segment revenue	1,449,646	1,080,744	2,530,390
Inter-segment revenue	(84,000)	(819,109)	(903,109)
Revenue from external customers	1,365,646	261,635	1,627,281
Segment result	(10,211,489)	(46,354)	(10,257,843)
Depreciation and amortisation	27,349	-	27,349
Interest income	1,365,646	-	1,365,646
Interest expense	11	-	11
Income tax expense	-	-	-
Total segment assets	44,468,260	7,419,987	51,888,247
Total assets include:			
Additions to non-current assets (other than deferred tax)	31,906	-	31,906
Total segment liabilities	2,595,079	-	2,595,079

(c) Other segment information

(i) Segment revenue
Sales between Silex entities are carried out at arm's length and are eliminated on consolidation.

Silex is domiciled in Australia. The amount of the Company's revenue from external customers in Australia including the discontinued operations is $971,452 (2017: $1,369,397) and the total segment revenue from external customers in the United States is $88,843 (2017: $261,635). Segment revenues are allocated based on the country in which the supplier is located.

Translucent is domiciled in the United States. Revenues attributable to Translucent of $88,843 (2017: $261,635) is derived from a single external customer.

(ii) Segment result
The Board of Directors assess the performance of the operating segments based on resulst that excludes exchange gains and losses on intercompany loans which eliminate on consolidation. Solar Systems has been disclosed as a discontinued operation and not as a reportable segment. A reconciliation of the segment result to Net (loss) from continuing operations is provided as follows:

	2018 $	2017 $
Segment result	(4,579,381)	(10,257,843)
Net (loss) before income tax from continuing operations	(4,579,381)	(10,257,843)

(iii) Segment assets
Assets which eliminate on consolidation such as investments in controlled entities and intercompany receivables are excluded from segment assets. Segment assets agree to the balance sheet for both periods.

The total of non-current assets (other than Available-for-sale financial assets) located in Australia is $96,299 (2017: $53,180) and the total of these non-current assets located in other countries is $22,879 (2017: $29,816).

(iv) Segment liabilities
Reportable segment liabilities exclude intercompany loans, income tax payable and deferred tax liabilities. Segment liabilities agree to the balance sheet for both periods.

	2018 $	2017 $
Note 3 Revenue		
From continuing operations		
Interest income	971,452	1,365,646
License fees	-	131,148
Recoverable project costs from IQE	88,843	130,487
	1,060,295	1,627,281
From discontinued operations (note 13)		
Interest income	-	3,751
	-	3,751

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Recoverable project costs
Revenue is recorded in the month when the related costs are incurred.

(ii) Interest income
Interest revenue is recognised on a time proportion basis using the effective interest method.

(iii) Sale of goods
A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer.

(iv) Milestone revenue
Revenue is recognised when performance criteria are met and there is a reasonable assurance that the funds will be received.

(v) License Fees
Revenue is recognised by reference to the stage of completion of the transaction provided it is probable that economic benefits will flow to the entity.

	2018 $	2017 $
Note 4 Other income		
From continuing operations		
Research and development tax incentive	1,060,878	940,847
Profit on sale of intellectual property – sale of cREO™ technology	6,301,408	-
Profit on sale of property, plant and equipment - sale of cREO™ technology	128,600	-
Foreign currency exchange gains (net)	61,776	-
	7,552,662	940,847
From discontinued operations (note 13)		
Research and development tax incentive	-	41,058
Profit on sale of property, plant and equipment	-	114,000
	-	155,058

Grants from the government (including the Research and development tax incentive) are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to the Research and development tax incentive are recognised when there is reasonable assurance that the grant will be received and the amount can be reliably calculated.

(i) Research and development tax incentive

Research and development tax incentive income of $1,060,878 (2017: $981,905) was recognised as Other income by the Company during the year. The Company has met the conditions of the tax incentive.

	2018 $	2017 $
Note 5 Expenses		
Net (loss) from continuing operations before income tax includes the following expenses:		
Depreciation of plant and equipment	40,650	27,349
Total depreciation and amortisation	40,650	27,349
Finance costs		
Interest and finance charges paid/payable	8	11
Finance costs expensed	8	11
Rental expenses relating to operating leases - minimum lease payments	379,402	386,341
Provision for employee entitlements	79,712	43,393
Defined contribution superannuation expense	208,227	199,830
Research and development costs	9,482,175	9,975,023
Loss on disposal of property, plant and equipment	-	253
Foreign exchange losses (net)	-	155,223

	2018 $	2017 $
Note 6 Income tax expense		
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss) from continuing operations before income tax expense	(4,579,381)	(10,257,843)
Profit from discontinued operations before income tax expense	-	138,912
	(4,579,381)	(10,118,931)
Income tax calculated @ 27.5%	(1,259,330)	(2,782,706)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Unrealised exchange differences on loan balances	6,386	(637,377)
Research and development tax incentive	372,052	289,459
Sundry items	45,100	39,870
	(835,792)	(3,090,754)
Net deferred tax asset not recognised	620,514	3,477,046
Effect of higher rates on overseas income	215,278	(386,292)
Income tax expense	-	-

	2018 $	2017 $
(b) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax - debited directly to equity	-	1,796

	2018 $	2017 $
(c) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	168,170,698	130,386,961
Potential tax benefit at tax rate	38,328,645	41,509,643

A deferred tax asset has not been recognised as the consolidated entity has a history of tax losses.

The benefit of a deferred tax asset will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
(iii) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

(d) Tax consolidation legislation

Silex Systems Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. Consequently, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Note 7 Assets

This note provides information about the Company's assets.

	2018 $	2017 $
Note 7(a) Current assets - Cash and cash equivalents		
Cash at bank and on hand	2,002,145	876,319
Short-term bank deposits	-	1,000,000
	2,002,145	1,876,319

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

Additional information on the Company's exposure to interest rate risk is discussed in note 12.

	2018 $	2017 $
Note 7(b) Current assets - Held to maturity investments - Term deposits		
Bank deposits	29,851,837	40,801,837

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. If the Company were to sell a significant amount of held to maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in current assets as all have maturities less than 12 months from the end of the reporting period.

The bank deposits earn interest at between 2.35% and 2.80% (2017: between 2.30% and 3.05%). The deposits have an average maturity of 363 days (2017: 365 days).

	2018 $	2017 $
Note 7(c) Current assets - Trade and other receivables		
Trade debtors	9,771	23,114
Receivable from sale of Translucent's cREO™ technology	6,754,019	-
Other receivables	16,611	17,342
Derivative financial instruments – forward exchange contracts	31,251	-
Accrued income	1,487,852	1,601,888
Prepayments	152,848	200,249
	8,452,352	1,842,593

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

(i) Impaired trade receivables

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

As at 30 June 2018, trade receivables of the Company with a nominal value of $nil were impaired (2017: $nil). As at 30 June 2018, the provision for doubtful debts was $nil (2017: $nil).

Amounts charged to the provision for doubtful debts account are generally written off when there is no expectation of recovering additional cash. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(ii) Past due but not impaired trade receivables
As at 30 June 2018, trade receivables of $9,771 (2017: $22,169) were past due but not impaired. These amounts were received in July 2018 (2017: in July 2017).

(iii) Receivable from sale of Translucent's cREO™ technology
This relates to the US$5 million receivable from IQE Plc from the sale of Translucent's cREO™ technology in April 2018 that was received (in IQE shares) in September 2018.

(iv) Other receivables
These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained. As at 30 June 2018, other receivables of the Company with a nominal value of $nil were impaired (2017: $nil). As at 30 June 2018, the provision for doubtful debts for other receivables was $nil (2017: $nil).

(v) Accrued income
Accrued income includes accrued research and development tax incentive and accrued interest.

(vi) Foreign exchange and interest rate risk
Information concerning the Company’s exposure to foreign currency in relation to trade and other receivables is provided in note 12.

(vii) Fair value and credit risk
Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer note 12 for further information.

	2018			2017		
	Current	Non-current	Total	Current	Non-current	Total
	$	$	$	$	$	$
Note 7(d) Available-for-sale financial assets						
Listed securities						
Equity securities	9,362,123	-	9,362,123	-	7,284,502	7,284,502

(i) Classification of financial assets as available-for-sale
Investments are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and the Company intends to hold them for the medium to long-term. They are presented as non-current assets unless the Company intends to dispose of them within 12 months of the end of the reporting period.

(ii) Impairment indicators for available-for-sale financial assets and risk exposure
A security is considered to be impaired if there has been a significant or prolonged decline in the fair value below its cost.

For an analysis of the sensitivity of available-for-sale financial assets to exchange rate and price risk, refer to note 12(b).

(iii) Amounts recognised in other comprehensive income
During the year, the following gains/(losses) were recognised in other comprehensive income.

	2018	2017
	$	$
Gains/(losses) recognised in other comprehensive income (refer note 9(b))	1,799,633	5,716,932

Note 7(e) Non-current assets - Property, plant and equipment

	Plant and equipment $	Motor vehicles $	Total $
At 30 June 2016			
Cost	806,532	191,906	998,438
Accumulated depreciation	(765,485)	(152,952)	(918,437)
Net book amount	41,047	38,954	80,001
Year ended 30 June 2017			
Opening net book amount	41,047	38,954	80,001
Exchange differences	-	(1,209)	(1,209)
Additions	31,906	-	31,906
Disposals	(353)	-	(353)
Depreciation charge	(19,420)	(7,929)	(27,349)
Closing net book value	53,180	29,816	82,996
At 30 June 2017			
Cost	819,926	190,499	1,010,425
Accumulated depreciation	(766,746)	(160,683)	(927,429)
Net book amount	53,180	29,816	82,996
Year ended 30 June 2018			
Opening net book amount	53,180	29,816	82,996
Exchange differences	-	796	796
Additions	76,036	-	76,036
Disposals	-	-	-
Depreciation charge	(32,917)	(7,733)	(40,650)
Closing net book value	96,299	22,879	119,178
At 30 June 2018			
Cost	883,126	191,984	1,075,110
Accumulated depreciation	(786,827)	(169,105)	(955,932)
Net book amount	96,299	22,879	119,178

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Directly attributable labour costs incurred in the construction of property, plant and equipment are capitalised.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements 2 years
- Plant and Machinery 1-10 years
- Vehicles 3-7 years
- Furniture, fittings and equipment 3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 22(f)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Company policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

	2018 $	2017 $
Note 7(f) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for employee entitlements, warranties, restructuring and decommissioning	223,801	205,974
Depreciation and amortisation	453,801	857,453
Payables not deductible	3,324,608	2,663,981
Tax losses	38,328,645	41,509,643
	42,330,855	45,237,051
Amounts recognised directly in equity		
Share issue expenses	-	(1,796)
	42,330,855	45,235,255
Set-off deferred tax liabilities pursuant to set-off provisions	(4,113,221)	(4,765,225)
Net deferred tax assets not recognised	(38,217,634)	(40,470,030)
Net deferred tax assets	-	-

	2018 $	2017 $
Movements:		
Opening at 1 July	-	1,796
Credited/(charged) to equity	-	(1,796)
Closing balance at 30 June	-	-

Note 8 Liabilities

This note provides information about the Company's liabilities.

	2018 $	2017 $
Note 8(a) Current liabilities - Trade and other payables		
Trade creditors	1,462,923	1,411,448
Derivative financial instruments - forward exchange contracts	-	56,684
Other payables	429,828	378,852
	1,892,751	1,846,984

These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured. Trade creditors are usually paid within 45 days of recognition. Trade creditors, derivative financial instruments and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date.

(i) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months:

	2018 $	2017 $
Annual leave obligations expected to be settled after 12 months	33,369	37,568

(ii) Risk exposure

Information about the Company's exposure to foreign exchange risk is provided in note 12.

	2018 Current $	2018 Non-current $	2018 Total $	2017 Current $	2017 Non-current $	2017 Total $
Note 8(b) Provisions						
Employee benefits - long service leave and anniversary leave	549,238	78,501	627,739	485,012	78,892	563,904
Warranty provision	146,081	-	146,081	147,091	-	147,091
Make good provision	-	40,000	40,000	-	38,000	38,000
	695,319	118,501	813,820	632,103	116,892	748,995

(i) Amounts not expected to be settled within the next 12 months

The current provision for long service leave and anniversary leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Company does not have an unconditional right to defer settlement. However, based on past experience, the Company does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

	2018 $	2017 $
Current long service leave and anniversary leave obligations expected to be settled after 12 months	414,322	416,048

Movements in each class of provision during the financial year, other than long service leave and anniversary leave, are set out below:

	Warranty $
Carrying amount at start of the year	147,091
Amounts used during the year	(1,010)
Carrying amount at end of the year	146,081

Provision is made for the estimated warranty claims in respect of products sold. The claims may be settled in the next financial year and this may be extended into future years.

	Make good $
Carrying amount at start of the year	38,000
Charged to profit or loss	
- additional provisions recognised	2,000
Carrying amount at end of the year	40,000

The Company is required to restore its leased premises under the terms of the lease contracts. A provision has been recognised for the present value of the estimated expenditure required to meet these obligations.

	2018 $	2017 $
Note 8(c) Non-current liabilities - Deferred tax liabilities		
The balance comprising temporary differences attributable to:		
Foreign currency cash balances and loans	2,204,635	2,190,759
Available-for-sale financial assets	1,788,177	2,384,197
Accrued income	120,409	190,269
	4,113,221	4,765,225
Set off deferred tax liabilities pursuant to set-off provisions	(4,113,221)	(4,765,225)
Net deferred tax liabilities	-	-

Note 9 Equity

The note provides information about the Company's equity.

	Parent entity		Parent entity	
	2018 Shares	2017 Shares	2018 $	2017 $
Note 9(a) Contributed equity				
(i) Share capital				
Ordinary shares				
Fully paid	170,467,339	170,467,339	231,750,374	231,750,374

(ii) Movements in ordinary share capital

Date	Details	Number of shares	$
30 June 2016	Balance	170,467,339	231,752,170
	Deferred tax recognised directly in equity		(1,796)
30 June 2017	Balance	170,467,339	231,750,374
30 June 2018	Balance	170,467,339	231,750,374

(iii) Ordinary shares
Ordinary shares are classified as equity. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(iv) Options
Information relating to the Silex Systems Limited Employee Share Option Plan (No. 1), including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 18.

(v) Capital risk management
The Company's objectives when managing capital are to safeguard their ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Company may issue new shares.

	2018 $	2017 $
Note 9(b) Reserves		
Foreign currency translation reserve	(932,162)	(1,515,753)
Revaluation - Available-for-sale financial assets	7,233,124	5,433,481
Transactions with non-controlling interests	(2,906,913)	(2,891,856)
Share based payments reserve	14,627,214	14,627,214
	18,021,263	15,653,086

	2018 $	2017 $
Movements		
Foreign currency translation reserve		
Balance at the beginning of the financial year	(1,515,753)	(1,462,411)
Net exchange differences on translation of foreign controlled entity	583,591	(53,342)
Balance at the end of the financial year	(932,162)	(1,515,753)

	2018 $	2017 $
Revaluation - Available-for-sale financial assets		
Balance at the beginning of the financial year	5,433,481	(283,451)
Differences on revaluation	1,799,643	5,716,932
Balance at the end of the financial year	7,233,124	5,433,481

	2018 $	2017 $
Transactions with non-controlling interests		
Balance at the beginning of the financial year	(2,891,856)	(2,891,856)
Amount paid to non-controlling interest for shares in Translucent Inc	(15,057)	-
Balance at the end of the financial year	(2,906,913)	(2,891,856)

	2018 $	2017 $
Share based payments reserve		
Balance at the beginning of the financial year	14,627,214	14,627,214
Balance at the end of the financial year	14,627,214	14,627,214

Nature and purpose of reserves

(i) Foreign currency translation reserve
Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 22(c). The reserve is recognised in profit and loss when the net investment is disposed of.

(ii) Revaluation - Available-for-sale financial assets
Changes in the fair value of investments that are classified as available-for-sale financial assets are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

(iii) Transactions with non-controlling interests
This reserve is used to record the differences described in note 22(b)(ii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

(iv) Share-based payments reserve
The share-based payments reserve is used to recognise the fair value of options issued but not exercised. It is also used to recognise the fair value of deferred shares to be issued.

	2018 $	2017 $
Note 9(c) Accumulated losses		
Accumulated losses at the beginning of the financial year	(198,111,192)	(187,992,261)
Net (loss) attributable to members of Silex Systems Limited	(4,579,381)	(10,118,931)
Accumulated losses at the end of the financial year	(202,690,573)	(198,111,192)

	2018 $	2017 $
Note 10 Cash Flow information		
(a) Reconciliation of net (loss) after income tax to net cash (outflows) from operating activities		
Net (loss) after income tax	(4,579,381)	(10,118,931)
Depreciation and amortisation	40,650	27,349
(Profit) on sale of intellectual property (sale of cREO™ technology)	(6,301,408)	-
(Profit) on sale of plant and equipment	(128,600)	(113,747)
Net exchange differences	(23,461)	5,793
Decrease/(increase) in prepayments and other current assets	47,401	(76,211)
(Increase)/decrease in trade and other debtors	(17,177)	129,387
Decrease in accrued income	114,036	1,570,507
Increase/(decrease) in trade and other creditors	45,767	(255,884)
Increase/(decrease) in provisions	64,825	(203,130)
Net cash (outflows) from operating activities	(10,737,348)	(9,034,867)

	2018 $	2017 $
(b) Non-cash investing and financing activities	-	-

Note 11 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Note 12 Financial risk management

The Company's activities expose it to a variety of financial risks; market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. The Company uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk.

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and manages financial risks in close co-operation with the Company's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk and investing excess liquidity.

(a) Derivatives

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

The Company's policy is to hedge a proportion of its anticipated cash flows in USD. At year end, the Company held forward exchange contracts totalling US$675,000 (2017: US$1,500,000) to purchase USD with contractual maturity dates up to August 2018 (2017: up to September 2017) as part of its strategy to minimise the financial effects of foreign currency fluctuations. The Board monitors the Company's hedging strategy on a continuing basis. The fair value of derivative contracts outstanding at year end totals $31,251 and is recorded in Current assets – trade and other receivables. The fair value of derivative contracts outstanding at 30 June 2017 totalled $56,684 and is recorded in Current liabilities – trade and other payables.

(b) Market risk

(i) Foreign exchange risk

The Company operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Company's exposure to USD foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

	2018 AUD	2017 AUD
Cash and cash equivalents	45,916	48,553
Trade payables	742,942	933,388
Forward exchange contracts - buy foreign currency	911,793	1,951,727

Profit or loss is sensitive to the value of the AUD compared to the USD.

	Impact on post-tax profit		Impact on other components of equity	
	2018 $	2017 $	2018 $	2017 $
AUD/USD - increase by 15%	(27,974)	(139,160)	(27,974)	(139,160)
AUD/USD - decrease by 15%	37,848	188,275	37,848	188,275

In March 2016, the Company received shares in IQE Plc, a UK based company, resulting from the License and Assignment Agreement signed in September 2015. IQE's shares are listed on the London Stock Exchange (GBP currency). The impact of an increase or decrease in the AUD/GBP (provided it is not deemed an impairment) would not impact post-tax profits as it is accounted for in other comprehensive income. The impact of a 15% increase in the AUD/GBP would decrease other components of equity by $1,221,147 (2017: $950,152) and a 15% decrease in the AUD/GBP would increase other components of equity by $1,652,139 (2017: $1,285,500).

(ii) Cash flow and fair value interest rate risk

As the Company has significant interest-bearing assets, the Company's income and operating cash flows are influenced by changes in market interest rates. Company policy is to maintain the majority of cash and cash equivalents at fixed rates by the use of term deposits.

The Company manages its cash flow interest rate risk by having a spread of maturity dates with different institutions.

As at the reporting date, the Company had the following variable interest rate cash and cash equivalents:

	30 June 2018		30 June 2017	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Cash and cash equivalents	1.79%	1,840,367	1.71%	703,310

Profit or loss is sensitive to higher / lower interest income from cash and cash equivalents as a result of changes in interest rates.

	Impact on post-tax profit		Impact on other components of equity	
	2018 $	2017 $	2018 $	2017 $
Interest rates - increase by 1.00%	21,513	18,477	21,513	18,477
Interest rates - decrease by 1.00%	(21,513)	(18,477)	(21,513)	(18,477)

(iii) Price risk

The Company's exposure to equity securities price risk arises from Translucent's shares in IQE Plc which are classified in the balance sheet as available-for-sale financial assets.

The impact of an increase or decrease in the IQE share price (provided it is not deemed an impairment) would not impact post-tax profits as it is accounted for in other comprehensive income. The impact of a 10% increase in IQE's share price would increase other components of equity by $936,212 (2017: $728,450) and a 10% decrease in IQE's share price would reduce other components of equity by $936,212 (2017: $728,450). The impact of a 20% increase in IQE's share price would increase other components of equity by $1,872,425 (2017: $1,456,900) and a 20% decrease in IQE's share price would reduce other components of equity by $1,872,425 (2017: $1,456,900).

(c) Credit risk

The Company has a concentration of credit risk with its main receipts in recent years coming from IQE Plc (in relation to the licensing of Translucent's semiconductor technology), banks (interest income) and government (Research and development tax Incentive). The Company has policies in place to ensure that transactions are with entities with an appropriate credit history. For banks and financial institutions, only independently rated parties with a minimum rating as approved by the Board are accepted. Cash transactions are limited to high credit quality financial institutions. The Company has policies that limit the amount of credit exposure to any one financial institution.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

	2018 $	2017 $
Trade receivables *		
Group 1	-	-
Group 2	9,771	23,114
Group 3	-	-
Total trade receivables	9,771	23,114

* Group 1 – new customers (less than 6 months).
Group 2 – existing customers (more than 6 months) with no defaults in the past.
Group 3 – existing customers (more than 6 months) with some defaults in the past.

	2018 $	2017 $
Cash and cash equivalents and held to maturity investments		
ANZ Banking Group Limited	11,644,870	11,016,325
National Australia Bank	7,800,000	8,800,000
Bendigo and Adelaide Bank Limited	5,000,000	11,250,000
Bank of Queensland	7,300,000	11,500,000
Bank of America	109,110	111,829
Other	2	2
	31,853,982	42,678,156

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Company manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements
The Company had access to the following undrawn borrowing facilities at the reporting date:

	2018 $	2017 $
Floating rate		
- Expiring within one year (documentary credit facility and visa facility)	200,000	200,000
	200,000	200,000

The documentary credit facility and visa facility may be drawn at any time and is subject to annual review.

Maturities of financial liabilities
The tables below analyse the Company's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

At 30 June 2018	Less than 6 months $	6-12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying Amounts (assets)/ liabilities $
Non-derivatives							
Non-interest bearing	1,892,751	-	-	-	-	1,892,751	1,892,751
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,892,751	-	-	-	-	1,892,751	1,892,751
Derivatives							
Forward foreign exchange contracts	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

At 30 June 2017	Less than 6 months $	6-12 months $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Total contractual cash flows $	Carrying Amounts (assets)/ liabilities $
Non-derivatives							
Non-interest bearing	1,790,300	-	-	-	-	1,790,300	1,790,300
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,790,300	-	-	-	-	1,790,300	1,790,300
Derivatives							
Forward foreign exchange contracts	56,684	-	-	-	-	56,684	56,684
	56,684	-	-	-	-	56,684	56,684

(e) Fair value estimation
The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual values at the current market interest rates that is available to the Company for similar instruments.

Note 13 Discontinued operations

In accordance with the Company's 2014 major strategic review and resulting restructure, the Solar Systems business was disclosed as a discontinued operation. On 30 July 2015, Silex announced a decision had been made to cease business operations at Solar Systems. During the year ended 30 June 2017, the residual assets held for sale were sold.

A.C.N. 142 019 583 Pty Ltd and A.C.N. 137 638 021 Pty Ltd (together formerly known as the Solar Systems business) as well as Silex Solar Pty Ltd were deregistered on 24 January 2018. A summary of the results of the discontinued operations is provided below.:

	2018 $	2017 $
Revenue (note 3)	-	3,751
Other income (note 4)	-	155,058
Expenses	-	(19,897)
Profit before income tax	-	138,912
Income tax expense	-	-
Profit after income tax of the discontinued operations	-	138,912

	2018 $	2017 $
Net cash inflows from operating activities	-	1,553,428
Net cash inflows from investing activities	-	464,000
Net cash inflows from the discontinued operations	-	2,017,428

Note 14 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 22(b).

Name of entity	Country of incorporation	Class of shares	Equity holding 2018 %	Equity holding 2017 %
Translucent Inc	United States of America	Ordinary	100.0%	99.7%
		Preference	N/A	100.0%
		Total	100.0%	99.9%
A.C.N. 142 019 583 Pty Ltd *	Australia	Ordinary	N/A	100.0%
		Total	N/A	100.0%
A.C.N. 137 638 021 Pty Ltd *	Australia	Ordinary	N/A	100.0%
		Total	N/A	100.0%
ChronoLogic Pty Ltd	Australia	Ordinary	79.6%	79.6%
		Preference	100.0%	100.0%
		Total	90.0%	90.0%
Silex Solar Pty Ltd *	Australia	Ordinary	N/A	100.0%
		Total	N/A	100.0%
Silex USA LLC **	United States of America	Interest	100.0%	N/A
		Total	100.0%	N/A

** Companies were deregistered on 24 January 2018.*
*** Silex USA LLC was incorporated on 28 November 2017 as a subsidiary of Translucent Inc for the purposes of acquiring GEH's 76% interest in GLE on behalf of Silex Systems Limited. Silex USA LLC had no transactions during the year ended 30 June 2018.*

(b) Transactions with non-controlling interests

In September 2017, Silex paid $15,057 to acquire the remaining shares in Translucent Inc. There were no transactions with non-controlling interests in the prior year.

	2018 $	2017 $
Note 15 Commitments for expenditure and guarantees		
(a) Capital commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Property, plant and equipment	-	-

	2018 $	2017 $
(b) Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	286,482	367,907
Later than one year but not later than five years	225,223	534,562
	511,705	902,469

(c) Guarantees entered into by the Company

The Company has provided guarantees totalling $51,837 (2016: $51,837) for rent of its corporate office premises.

Note 16 Events occurring after reporting date

Following the announcement regarding the Company's termination of the Term Sheet with GEH on the 12 June 2018, a number of operational decisions were made in July 2018 to rationalise activities and reduce anticipated operational cash burn from FY2019 onwards. Actions taken to date include a headcount reduction of more than 40% at our Lucas Heights facility, and the planned consolidation of our operations with the relocation of our small corporate office to the Lucas Heights facility in October 2018. The one-off expenses associated with these initial restructuring decisions is expected to be approximately $180,000.

Between 30 June 2018 and the date of this report, the IQE Plc share price (AIM: IQE) has decreased significantly. Combined with movements in exchange rates, the value of the shares held at 30 June 2018 (disclosed as Available-for-sale financial assets) has decreased by approximately $1,630,000 since 30 June 2018. Gains or losses arising from changes in the fair value of shares classified as available-for-sale are recognised in other comprehensive income. The financial effects of the movements in fair value since 30 June 2018 will be recognised in the financial statements for the year ended 30 June 2019.

In September 2018, the group received US$5 million worth of shares in IQE from the sale of its cREO™ technology. Since receiving the shares, the IQE share price has fallen. Combined with movements in exchange rates from 30 June 2018, the value of this tranche of shares has decreased by approximately $480,000 compared to the value of the receivable at 30 June 2018. Consistent with the comments above, it is expected that the gains or losses arising from changes in the fair value of the shares will be recognised in other comprehensive income in the financial statements for the year ended 30 June 2019.

The consolidated entity is not aware of any other matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly, affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years other than those referred to in this report.

Note 17 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 14(a).

(b) Key management personnel

	2018	2017
	$	$
Short-term employee benefits	1,090,979	1,089,251
Post-employment benefits	68,398	90,047
Long-term benefits	54,762	20,650
	1,214,139	1,199,948

(c) Transactions with related parties

The following transactions occurred with related parties:

	2018	2017
	$	$
Contributions to superannuation funds on behalf of employees	211,827	230,180

Note 18 Share-based payments

(a) Silex Systems Limited Employee Share Option Plan (No. 1)

The Employee Share Option Plan (No. 1) was terminated by a resolution of the Silex Board in accordance with the plan rules on 24 October 2013.

Under the rules of the terminated plan, all full-time and part-time staff and executive directors of the consolidated entity were eligible to participate in the plan with options granted for no consideration. Options were granted for a five-year period and were exercisable after three years of the date of the grant (after two years of the date of grant for options issued prior to 16 March 2012). The options lapsed if the holder ceased to be an eligible employee other than by reason of death or permanent disablement, unless the Board determined otherwise in its absolute discretion. Options granted under the plan carried no dividend or voting rights.

When exercisable, each option was convertible into one ordinary share. The exercise price of options was based on the weighted average price at which the Company's shares traded on the Australian Stock Exchange during the five trading days before the options were granted plus five cents. Amounts received on the exercise of options were recognised as share capital.

At 30 June 2018, no options granted under the Silex Systems Limited Employee Share Plan (No.1) remain exercisable. No further options will be granted under this Plan. No options were issued, lapsed/forfeited or exercised during the year ended 30 June 2018.

Set out below is a summary of options under the plan for the prior year:

Grant date	Expiry date	Exercise price cents	Balance at start of year Number	Issued during the year Number	Lapsed/forfeited during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at the end of the year Number
Consolidated and parent entity - 2017								
5/07/2011	4/07/2016	292	100,000	-	(100,000)	-	-	-
			100,000	-	(100,000)	-	-	-
Weighted average exercise price			$2.92	-	$2.92	-	-	-

No options were granted during the year ended 30 June 2018 or during the year ended 30 June 2017.

(b) Options to directors

No options were issued to directors during the year ended 30 June 2018 or during the year ended 30 June 2017.

(c) Translucent Inc Stock Incentive Plan

All full-time and part-time staff of Translucent Inc were eligible to participate in the plan. In addition, consultants were eligible to participate in the plan.

Options were granted under the plan for no consideration and for a ten-year period and exercisable at various stages over the five years from the date of the grant. The options lapsed if the holder ceased to be an eligible employee other than due to death or permanent disablement, unless the Board determined otherwise in its absolute discretion. Options granted under the plan carried no dividend or voting rights.

When exercisable, each option was convertible into one ordinary share. The exercise price of options was based on the fair value of the shares at the time of granting of the options. Amounts received on the exercise of options were recognised as share capital.

At 30 June 2018, no options granted under the Translucent Inc Stock Incentive Plan remain exercisable. No further options will be granted under this Plan. No options were issued, lapsed/forfeited or exercised during the year ended 30 June 2018.

Set out below is a summary of options under the plan for the prior year:

Grant date	Expiry date	Exercise price US cents	Balance at start of year Number	Issued during the year Number	Lapsed/forfeited during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at the end of the year Number
Translucent Inc – 2017								
4/10/2006	4/10/2016	6.4	644,404	-	(644,404)	-	-	-
			644,404	-	(644,404)	-	-	-
Weighted average exercise price - US cents			6.4	-	6.4	-	-	-

No options were granted during the year ended 30 June 2018 or during the year ended 30 June 2017.

(d) Shares to employees

No shares were issued to employees in the current year or in the prior year.

(e) Expenses arising from share-based transactions

Total expenses arising from share-based payment transactions recognised during the period as part of remuneration expense were $nil (2017: $nil)

Note 19 Remuneration of auditors

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

	2018 $	2017 $
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	100,980	98,039
Total remuneration for audit services	100,980	98,039
Other assurance services		
PricewaterhouseCoopers Australian firm		
Total remuneration for other assurance services	-	-
Total remuneration for assurance services	100,980	98,039
(b) Other services		
Seminars and training courses	450	582
Total remuneration for other services	450	582
Total remuneration	101,430	98,621

It is Silex's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with Silex are important; these assignments are principally assurance related, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is Silex's policy to seek competitive quotes for all major consulting projects.

Note 20 Earnings per share

	2018 Cents	2017 Cents
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the company	(2.69)	(6.02)
From discontinued operations	-	0.08
Total basic earnings per share attributable to the ordinary equity holders of the company	(2.69)	(5.94)

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(b) Diluted earnings per share	2018 Cents	2017 Cents
From continuing operations attributable to the ordinary equity holders of the company	(2.69)	(6.02)
From discontinued operations	-	0.08
Total diluted earnings per share attributable to the ordinary equity holders of the company	(2.69)	(5.94)

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after-income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

	2018 $	2017 $
(c) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share		
From continuing operations	(4,579,381)	(10,257,843)
From discontinued operations	-	138,912
	(4,579,381)	(10,118,931)
Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share		
From continuing operations	(4,579,381)	(10,257,843)
From discontinued operations	-	138,912
	(4,579,381)	(10,118,931)

	2018 Number	2017 Number
(d) Weighted average number of shares used in the denominator		
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share:	170,467,339	170,467,339
Weighted average number of ordinary shares on issue used in the calculation of diluted earnings per share:	170,467,339	170,467,339

(e) Information concerning the classification of securities

In the prior year, options were not included in the calculation of diluted earnings per share because they were antidilutive.

Further information about options and shares is included in note 18.

Note 21 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2018 $	2017 $
Balance sheet		
Current assets	33,433,946	44,385,913
Total assets	33,568,120	44,447,418
Current liabilities	2,232,734	2,469,318
Total liabilities	2,351,235	2,586,210
Net assets	31,216,885	41,861,208
Shareholders' equity		
Issued capital	231,750,374	231,750,374
Reserves		
Share based payments	14,432,340	14,432,340
Accumulated losses	(214,965,829)	(204,321,506)
Total equity	31,216,885	41,861,208
Net (loss) for the period	(10,644,323)	(10,517,250)
Total comprehensive income	(10,644,323)	(10,517,250)

The Net (loss) for the period above differs from the segment result disclosed in note 2 as the segment result excludes exchange gains and losses on intercompany loans (which eliminate on consolidation), write-downs of intercompany loans (which eliminate on consolidation) and impairment charges for investments in subsidiaries (which eliminate on consolidation).

(b) Guarantees entered into by the parent company

The parent has provided a $51,837 (2017: $51,837) bank guarantee for the rent of its corporate office premises.

(c) Contractual commitments for the acquisition of property, plant or equipment

As at 30 June 2018 (and 30 June 2017), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

(d) Basis of preparation

This parent entity financial information has been prepared on the same basis as the consolidated financial statements except as set out below:

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Silex Systems Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Silex Systems Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation. The head entity, Silex Systems Limited, and the controlled entities in the tax consolidation group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the group continues to be a stand-alone taxpayer in its own right.

Note 22 Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Silex Systems Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Silex Systems Limited is a for-profit entity for the purposes of preparing the financial statements.

Compliance with IFRS
The consolidated financial statements of the Silex Systems Limited company also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention
These financial statements have been prepared on a historical cost basis, except for the following:

- Available-for-sale financial assets are measured at fair value; and
- Assets held for sale – measured at fair value less cost of disposal.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies.

New and amended standards adopted by the Company
Silex has applied the following standards and amendments for the first time for their annual reporting period commencing 1 July 2017:

- AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses

The adoption of the amendments did not have any impact on the amounts recognised in prior periods and will not affect the current or future periods.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2018 reporting periods and have not been adopted early by the Company. The Company's assessment of the impact of these new standards and interpretations is set out below:

AASB 9 *Financial Instruments*
AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. Silex has reviewed its financial assets and liabilities and expects the following impact from adoption on 1 July 2018:

The standard will give the Company the option to either value its shares in IQE Plc at fair value through profit or loss or by making an irrevocable election at initial recognition to present subsequent changes in fair value in other comprehensive income.

If the Company elects to value at fair value through other comprehensive income:

- the classification will change from Available-for-sale financial assets to Fair value through other comprehensive income in the balance sheet.
- In the event the shares are sold, in accordance with the new standard, the impact will not be reclassified to profit and loss.
- impairments under the new standard would be reflected in other comprehensive income.

Silex expects that it will elect to value its IQE shares at Fair value through other comprehensive income.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. In recent years the group has had minimal trade receivables at year end. At 30 June 2018, trade receivables were $9,771. The amounts were owed by IQE Plc and IQE has not historically defaulted on amounts due. The impact on the financial result for the year ended 30 June 2018, assuming a 5% provision is required under the new standard would be an additional expense of less than $500.The group also has a US$5 million receivable at 30 June 2018 from IQE however, as this is backed by an equal amount held in an escrow account with a third party, no impairment would be required under the new standard for the US$5 million receivable.

The new hedge rules will generally make it easier to apply hedge accounting in the future as the standard applies a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. Silex does not expect to adopt hedge accounting for the year ended 30 June 2019. The new rules must be applied for financial years commencing on or after 1 January 2018.

AASB 15 *Revenue from Contracts with Customers*
The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards. The new standard is mandatory for financial years commencing on or after 1 January 2018.

In accordance with the Amended and Restated Technology Commercialisation and License Agreement (ARTCLA) signed between Silex and GLE in 2013, Silex may be entitled to further milestone payments and royalties in the event the SILEX laser-based uranium enrichment technology is commercialised by GLE. As a result of the Company's 12 June 2018 ASX announcement that Silex had withdrawn from the acquisition of a majority stake in GLE, the potential for Silex to receive revenue in accordance with the ARTCLA remains uncertain. Consequently, it is not expected that adoption of the new standard will impact Silex's revenue recognition until such time as the future of the technology is resolved.

During the year ended 30 June 2018, IQE exercised its option to acquire Translucent's cREO™ technology for US$5 million. Early adoption of the new standard would not have had an impact on the US$5 million consideration being booked as income for the year ended 30 June 2018.

In addition to the US$5 million receivable for the sale of the cREO™ technology, a perpetual royalty of between 3% and 6% will be payable on the sale of any IQE products that utilise the cREO™ technology, with minimum royalties due to commence to be paid in the year ended 30 June 2020. Under AASB 15, the royalties would be treated as additional variable consideration for the sale of the technology. Revenue is required to be estimated for the royalties if it is highly probable that a significant reversal would not subsequently occur. Given that the initial payment of royalties is not due until the FY2020 financial year, a detailed assessment of the application of the AASB 15 will be conducted at that time.

In accordance with AASB 15, Management will reassess its estimate of the transaction price (which includes the variable consideration) for each accounting period where there is an expectation to receive the variable consideration in the future. Therefore, adoption of the new standard may impact the timing of revenue recognition in the future. The Company will need to consider the progress made by IQE in relation to the commercialisation of the cREO™ technology and reassess periodically how likely it is that royalties will be received. Finally, in the future, where the value of royalties are accounted for, Silex would need to determine whether a significant financing component exists and if so account for this separately.

AASB 16 *Leases*
The new standard will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (being the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The new standard is mandatory for financial years commencing on or after 1 January 2019.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $511,705, refer note 15. The Company has reviewed its leases and determined that these commitments will result in the recognition of an asset and a lease liability for future payments upon adoption of the new standard.

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

There are no other standards that are not yet effective and that would be expected to have a material impact on the Company in the current or future reporting periods and on foreseeable future transactions.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silex Systems Limited ('parent entity') as at 30 June 2018 and the results of all subsidiaries for the year then ended. Silex Systems Limited and its subsidiaries together are referred to in this financial report as the Company, the consolidated entity or the group.

Subsidiaries are all those entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. The acquisition method of accounting is used to account for business combinations by the Company.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Changes in ownership interests
The Company treats transactions with non-controlling interests that do not result in a loss of control, as transactions with equity owners of the Company. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Silex Systems Limited.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Silex Systems Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings, are recognised in other comprehensive income. The Company's funding of its investment in Translucent Inc has been deemed part of its net investment. When a foreign operation is sold or borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(d) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(e) Leases

Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 15). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(f) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(g) Investments and other financial assets

The Company classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 7(c)). Loans and receivables are carried at amortised cost using the effective interest method.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value. Gains or losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income. When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss.

(iii) Impairment of Investments and other financial assets

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. The subsidiaries have built up accumulated losses. Hence, due to the nature of these businesses, a provision against the value of the investment in the subsidiaries has been raised.

If there is objective evidence of impairment for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

(h) Measurement and fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

(i) Employee benefits

(i) Wages and salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Some employees of the Company are entitled to benefits on retirement, disability or death from the Company’s defined contribution superannuation plan. The fund receives fixed contributions from the Company and the Company’s legal or constructive obligation is limited to these contributions. Contributions to the defined contribution fund are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits have been previously provided to employees via the Silex Systems Limited Employee Share Option Plan (No. 1) and the Silex Systems Limited Performance Rights Plan. Ownership-based remuneration has also been provided to employees via the Translucent Inc Employee Option Plan. Information relating to these schemes is set out in note 18.

The fair value of options granted under the Silex Systems Limited Employee Share Option Plan (No. 1) and Translucent Inc Employee Option Plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the relevant balance of the share-based payments reserve is transferred to share capital.

The Performance Rights Plan is structured in a manner whereby awards (described as performance rights) granted are a right to acquire fully paid ordinary shares in the Company for $nil consideration, subject to meeting certain pre-determined key performance indicators and vesting conditions. The Plan may be used as a Short-term or Long-term Incentive vehicle.

The fair value of deferred shares granted under the short-term incentive scheme is recognised as an expense over the relevant service period, being the year to which the bonus relates.

The fair value of deferred shares granted under the long-term incentive scheme is recognised as an expense over the vesting period of the award. The fair value is measured at the grant date of the award.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(j) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(k) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The liabilities associated with discontinued operations are presented separately from other liabilities in the balance sheet. The results of discontinued operations are presented separately in the income statement.

(l) Research and development costs

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other expenditure that does not meet these expenditure criteria are recognised as an expense as incurred. Given the stage of development of the Company's technologies, research and development costs are expensed as incurred.

In the directors' opinion:

(a) the financial statements and notes set out on pages 24 to 61 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 22(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

Dr M P Goldsworthy
CEO/MD

Mr C D Wilks
Director

Sydney

28 September 2018

Independent auditor's report

To the members of Silex Systems Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Silex Systems Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended

complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income 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 consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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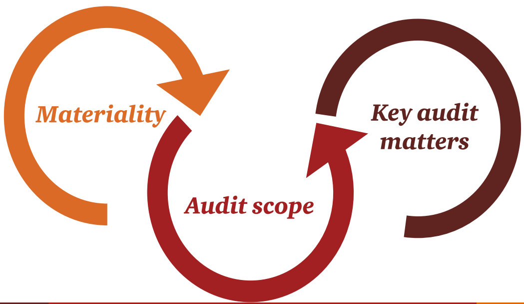
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
• For the purpose of our audit we used overall Group materiality of $0.6m million, which represents approximately 5% of the Group's loss before tax from continuing operations, adjusted for the one-off income from the sale of intellectual property because it is an unusual infrequent item impacting the performance of the Group. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • We performed audit procedures at the Group's head office and focused our audit procedures on the financial position and performance of the Company and it's subsidiary, Translucent Inc, given their significance to the financial position as at 30 June 2018 and the results of the Group for the year then ended as a whole.	• Amongst other relevant topics, we communicated the following key audit matters to the Audit Committee: – Available for sale financial assets - IQE Plc shares – Sale of Translucent Inc's cREO™ technology • These are further described in the *Key audit matters* section of our report.

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 for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Available for sale financial assets – IQE Plc shares *(Refer to Note 7 (d) $9.4m)* As explained in Note 7 (d) of the financial report, the fair value of IQE Plc shares has increased by $2.1m for the year ended 30 June 2018. As at 30 June 2018, the IQE shares are recorded at fair value and classified as Current Available for Sale financial assets on the balance sheet in accordance with the requirements of *AASB 139 Financial Instruments*. In the previous years, these shares were recorded at fair value and classified as Non-Current Available for Sale financial assets on the balance sheet as the Group initially elected not to designate these shares as held at fair value through profit and loss category asset and did not intend to liquidate them in the short-term. As of 30 June 2018, the Group's intent is to liquidate these shares within 12 months and therefore they have been reclassified to Current Assets. We considered this matter a key audit matter because of the materiality of the amounts, the judgement involved in classification of the IQE shares as non-current financial assets available for sale and the resulting impact on the results of the Group of any changes in fair value of these shares following initial recognition by the Group.	Our audit procedures included confirming the number of IQE shares held by the Group and assessing the fair value of the shares as at 30 June 2018. In order to do this we: • agreed the number of IQE shares held by the Group to share certificates • obtained the Group's calculation of the fair value of the shares as at 30 June 2018 (balance date), re-performed the calculation with reference to the number of the shares held by the Group and quoted share price of IQE shares at the balance date and agreed the amount to the available for sale financial asset recognised by the Group as at the balance date • assessed the classification of IQE shares by reference to Board minutes outlining the determination made by the Group, including the intention to liquidate within 12 months, and found the Group's accounting policy and treatment of the IQE shares as available for sale financial assets consistent with the Board's decisions.

Key audit matter	How our audit addressed the key audit matter
Sale of Translucent Inc's cREO^{TM} technology to IQE *(Refer to Notes 4 & 7(c) Income of $6.4m & Receivable of $6.8m)* During the financial year ended 30 June 2018, IQE Plc elected to acquire cREO™ technology of the Company's subsidiary Translucent Inc. The election has been made at the conclusion of the 30-month license period in accordance with the 2015 agreement between Company's subsidiary Translucent Inc and UK-based IQE Plc for the license and assignment of Translucent's innovative 'Rare Earth Oxide' (cREO™) semiconductor technology. A payment of US$5.0m for the sale of the cREO™ technology was held in an Escrow account with a third party as at 30 June 2018. The payment has subsequently been received in September 2018 via an issue of 4,262,256 ordinary shares in IQE Plc. IQE Plc shares trade on the AIM market of the London Stock Exchange. We considered this matter a key audit matter because of the materiality of the amounts to the financial position and performance of the Group for the year ended 30 June 2018.	Our audit procedures included: • reading the Deed of IP Assignment and the executed Escrow Agreement between Translucent Inc and IQE Plc, both dated 13 April 2018. • confirming the amounts held in the Escrow Accounts on behalf of Translucent Inc with the third party as at 30 June 2018. • assessing whether the classification of the recorded revenue and receivable amounts as at 30 June 2018 was in accordance with the Group's revenue recognition policy.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Chair's Report, CEO's report, Technology Overview, Director's Report, Corporate Governance Statement, Shareholders' Information and Company Directory but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:
http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 13 to 19 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Silex Systems Limited, for the year ended 30 June 2018 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

David Ronald
Partner

Sydney
28 September 2018

Shareholders' information

1. Information relating to shareholders as at 21 September 2018
(a) Distribution schedule

1 - 1,000	1,887
1,001 - 5,000	2,181
5,001 - 10,000	704
10,001 - 100,000	1,013
100,001 and over	199
Total number of holders of each class of security	5,984

Voting rights - on a show of hands	
- on a poll	
Percentage of total holding held by the largest 20 holders	47.75%
Number of total holding less than a marketable parcel of shares	2,991

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030
Mr Paul Cozzi	9,580,000

(b) Names of Twenty Largest Holders as at 21 September 2018

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.48%
Mr Paul Cozzi	9,580,000	5.62%
Majenta Holdings Pty Ltd	5,703,923	3.35%
Hillboi Nominees Pty Ltd	4,229,295	2.48%
Throvena Pty Ltd	2,978,203	1.75%
Polly Pty Ltd	4,073,863	2.39%
National Nominees Limited	2,697,342	1.58%
Hamlac Pty Ltd	2,525,937	1.48%
Mr Christopher David Wilks	2,405,070	1.41%
HSBC Custody Nominees (Australia) Limited	2,292,133	1.34%
Felson Holdings Pty Ltd	2,251,000	1.32%
Quintal Pty Ltd	2,002,952	1.17%
Sporran Lean Pty Ltd	1,809,999	1.06%
RPM Super Pty Ltd	1,500,000	0.88%
Citicorp Nominees Pty Limited	1,322,511	0.78%
Mr Luca Rotter + Ms Jane Louise Abbott	1,312,274	0.77%
Mr Xiangyang Wu	1,302,771	0.76%
Mr Nobuo Maeda	1,250,000	0.73%
J P Morgan Nominees Australia Limited	1,216,792	0.71%
Mr Timothy Guy Lyons + Mrs Heather Mary Lyons	1,150,000	0.67%
	81,405,095	47.75%

2. Interest of directors in shares as at 21 September 2018

	Ordinary shares	Interest held
Dr L M McIntyre	48,230	Beneficially
Dr M P Goldsworthy	5,979,055	Personally/Beneficially
Mr R A R Lee	-	N/A
Mr C D Wilks	2,814,021	Personally/Beneficially

3. Securities subject to voluntary escrow as at 21 September 2018

As at 21 September 2018, no securities were subject to voluntary escrow.

4. Unquoted equity securities as at 21 September 2018

There were no unquoted equity securities at 21 September 2018.