



Silex Systems Limited
ABN 69 003 372 067

**Concise 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

Registered Office and Principal Place of Business

Suite 8.01, Level 8
56 Clarence Street
Sydney NSW 2000, Australia

Postal address: PO Box 364, Sydney NSW 2001, Australia

Phone: +61 2 9704 8888
Fax: +61 2 9704 8851
Email: investor.relations@silex.com.au
Website: www.silex.com.au

Share Registry

Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide, South Australia 5000, Australia
GPO Box 1903 Adelaide 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. <i>Chair – Independent non-executive director</i>		
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. <i>Chief Executive Officer/Managing Director</i>		
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. <i>Non-executive director</i>		
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. <i>Independent non-executive director</i>		
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:

Director's name	Directors' Meetings		Audit Committee Meetings		People & Remuneration Committee Meetings	
	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.



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
<i>Non-executive and executive directors</i>	
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
<i>Other executive KMP</i>	
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.

Name	Year	Fixed remuneration				Variable remuneration	Total
		Cash salary and fees *	Non-monetary benefits *	Annual and long service leave **	Post-employment benefits - superannuation	Cash bonus *	
		\$	\$	\$	\$	\$	\$
<i>Executive directors</i>							
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
<i>Non-executive directors</i>							
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
<i>Other key management personnel</i>							
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
<i>Directors</i>						
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
<i>Other Executive KMP</i>						
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
<i>Directors of Silex Systems Limited</i>					
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
<i>Other Executive KMP</i>					
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
CEO/MD
Sydney, 28 September 2018



Mr C D Wilks
Director



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.

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

David Ronald
Partner
PricewaterhouseCoopers

Sydney
28 September 2018

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000
GPO BOX 2650 Sydney NSW 2001
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

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

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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

Concise financial report – 30 June 2018

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Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2018. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

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

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

Silex Systems Limited
Consolidated income statement
for the year ended 30 June 2018

	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		(8)	(11)
Depreciation and amortisation expense		(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		-	-
Net (loss) from continuing operations		(4,579,381)	(10,257,843)
Net profit from discontinued operations	5	-	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)
		<u>Cents</u>	<u>Cents</u>
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.

Silex Systems Limited
Consolidated statement of comprehensive income
for the year ended 30 June 2018

	2018	2017
	\$	\$
Net (loss) for the year	(4,579,381)	(10,118,931)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	1,799,643	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.

Silex Systems Limited
Consolidated balance sheet
as at 30 June 2018

	30 June 2018	30 June 2017
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	2,002,145	1,876,319
Held to maturity investments - term deposits	29,851,837	40,801,837
Trade and other receivables	8,452,352	1,842,593
Available-for-sale financial assets	9,362,123	-
Total current assets	49,668,457	44,520,749
Non-current assets		
Available-for-sale financial assets	-	7,284,502
Property, plant and equipment	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	1,892,751	1,846,984
Provisions	695,319	632,103
Total current liabilities	2,588,070	2,479,087
Non-current liabilities		
Provisions	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	231,750,374	231,750,374
Reserves	18,021,263	15,653,086
Accumulated losses	(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.

Silex Systems Limited
Consolidated statement of changes in equity
for the year ended 30 June 2018

	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.

Silex Systems Limited
Consolidated statement of cash flows
for the year ended 30 June 2018

	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		(10,737,348)	(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
Cash-flows of discontinued operations	5		
*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

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)
Total segment assets	33,552,475	16,235,160	49,787,635
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)
Total segment assets	44,468,260	7,419,987	51,888,247
Total segment liabilities	2,595,079	-	2,595,079

(i) Segment result

The Board of Directors assess the performance of the operating segments based on results that excludes exchange gains and losses on intercompany loans which eliminate on consolidation. 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)

Silex Systems Limited
Notes to the financial statements
30 June 2018 (continued)

	2018	2017
	\$	\$
Note 3 Revenue		
From continuing operations		
Interest income	971,452	1,365,646
License fees	-	131,148
Recoverable project costs from IOE	88,843	130,487
	1,060,295	1,627,281
From discontinued operations (note 5)		
Interest income	-	3,751
	-	3,751
	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 5)		
Research and development tax incentive	-	41,058
Profit on sale of property, plant and equipment	-	114,000
	-	155,058

Note 5 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	2016
	\$	\$
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 6 Dividends

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

Note 7 Events occurring after reporting date

Following the announcement regarding the Company's termination of the Term Sheet with GEH on 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 8 Basis of preparation

This concise financial report relates to the consolidated entity consisting of Silex Systems Limited and the entities it controlled at the end of, or during, the year ended 30 June 2018. The accounting policies have been consistently applied to all years presented, unless otherwise stated below. The financial statements in this report are presented in Australian dollars.

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2018 as set out on pages 24 to 32 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2018. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

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

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



Dr M P Goldsworthy
CEO/MD



Mr C D Wilks
Director

Sydney

28 September 2018



Independent auditor's report

To the members of Silex Systems Limited

Report on the concise financial report

Our opinion

In our opinion, the accompanying concise financial report of Silex Systems Limited (the Company) and its controlled entities (together the Group) for the year ended 30 June 2018 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

What we have audited

The Group concise financial report derived from the financial report of the Group for the year ended 30 June 2018 comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated income statement for the year then ended
- 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 related notes

Basis for opinion

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

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

Independence

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

Concise financial report

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

PricewaterhouseCoopers, ABN 52 780 433 757

*One International Towers Sydney, Watermans Quay, Barangaroo NSW 2000, GPO BOX 2650, Sydney NSW 2001
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

*Level 11, IPSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T +61 2 9659 2476, F +61 2 8666 999, www.pwc.com.au*

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The financial report and our report thereon

We expressed an unmodified audit opinion on the financial report in our report dated 28 September 2018.

That report also includes:

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

Responsibilities of the directors for the concise financial report

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

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

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

Report on the remuneration report

The following paragraphs are copies from our report on the remuneration report of Silex Systems Limited for the year ended 30 June 2018.

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

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 28 August 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.