Silex Systems Limited

ABN 69 003 372 067

Appendix 4E*
Financial year ended 30 June 2019

1. Results for announcement to the market

	2019 $	2018 $	Movement $	Movement %	
Cash and cash equivalents & Term deposits	24,853,590	31,853,982	(7,000,392)	22.0%	↓
Revenue from ordinary activities	744,560	1,060,295	(315,735)	29.8%	↓
Earnings before interest, tax, depreciation, and amortisation from continuing operations (EBITDA)	(5,844,915)	(5,510,175)	(334,740)	6.1%	↑
Net (loss) from ordinary activities after tax attributable to members	(5,153,108)	(4,579,381)	(573,727)	12.5%	↑
Net(loss) for the period attributable to members	(5,153,108)	(4,579,381)	(573,727)	12.5%	↑

2. Net tangible assets

	30 June 2019 Cents	30 June 2018 Cents
Net tangible asset backing per ordinary security	21.14	27.62

3. Status of audit

An unqualified, signed Audit Opinion is included within the attached Financial Report.

4. Other disclosures

All other information required to be disclosed by Silex Systems Limited in the Appendix 4E is either included in the attached Financial Report or not applicable.

** Lodged with the ASX under Listing Rule 4.3A*
(previous corresponding period: year ended 30 June 2018)

Silex Systems Limited
ABN 69 003 372 067

Financial Report
for the year ended 30 June 2019

COMPANY DIRECTORY

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

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

People & Remuneration Committee
Mr C A Roy – Chair
Ms M K Holzberger
Mr C D Wilks

Company Secretary
Ms J E Ducie

Registered Office and Principal Place of Business
Building 64, Lucas Heights Science & Technology Centre
New Illawarra Road
Lucas Heights NSW 2234, Australia

Postal address: PO Box 75, Menai Central NSW 2234, 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
Dentons Australia Limited

Bankers
Australia and New Zealand Banking Group Limited

American Depository Receipts (ADR) Information
Silex Systems Limited's ADRs may be purchased on the US OTCQX market.
Details are as follows:
Ratio: 1 ADR = 5 ordinary shares
Symbol: SILXY
CUSIP: 827046 10 3 9414F102
Exchange: OTCQX
Country: Australia

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 was licensed exclusively in 2006 to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA. GLE has been undergoing a restructure for a number of years after GE-Hitachi disclosed it was seeking to exit the venture. In view of the continuing uncertainty surrounding the GLE restructure and the continuing depressed nuclear fuel market conditions, plans for commercial deployment of the SILEX technology have been significantly delayed, and remain at risk.

The future of the SILEX technology is therefore highly uncertain and any plans for commercial deployment are speculative.

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

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

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

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Silex Systems Limited (Silex or the Company) and the entities it controlled at the end of, or during the year ended 30 June 2019.

1. Directors

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

Dr M P Goldsworthy
Mr C D Wilks

Dr L M McIntyre and Mr R A R Lee were directors from the beginning of the year until their respective resignations on 31 December 2018.

Mr C A Roy and Ms M K Holzberger were appointed as directors on 1 January 2019 and continue in office at the date of this report.

2. Principal activities

Silex is primarily focused on the development of the SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry. The development and commercialisation program has been undertaken jointly by Silex at its Lucas Heights, Sydney facility and in Wilmington, North Carolina by GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology since 2006.

3. Dividend

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

4. Review of operations and activities

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

Trading Results

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

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

Key information about the consolidated operations, results and financial position

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

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

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

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

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

We were also very pleased with IQE Plc's decision in early 2018 to purchase Silex subsidiary Translucent Inc's cREO™ semiconductor material technology, resulting in the receipt of a payment of US$5 million (in IQE shares) in September 2018. In addition, a perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. Minimum annual royalties are due for the 6 years ending 31 December 2024, with the initial minimum annual royalty of US$400,000 expected to be paid in FY2020.

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

Financial review

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

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

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

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

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

Silex Systems and Silex USA
Silex USA LLC was incorporated for the purpose of acquiring an interest in GLE and has incurred the Development expenditure for the continuing GLE activities following the signing of the new Term Sheet in February 2019. Silex has an obligation to fund US$0.2m per month and this obligation was retrospective to 1 September 2018. The combined loss of Silex Systems and Silex USA decreased from $10.6m in the prior year to $5.7m. The decrease in net loss was largely attributable to a reduction in Development expenditure and Consultants and professional fees as outlined above.

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

Balance sheet

A summary of our balance sheet is set out below:

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

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

5. Earnings per share

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

6. Significant changes in state of affairs

In February 2019, Silex, Cameco and GE-Hitachi Nuclear Energy (GEH) executed a new Term Sheet outlining key terms for the purchase of GEH's 76% interest in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The new Term Sheet contemplates GEH selling all of its 76% interest in GLE (i.e. selling 51% of its GLE interest to Silex and its remaining 25% interest to Cameco, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals. While the new Term Sheet is primarily Non-binding, there are certain binding provisions including a financial obligation to reimburse GEH an amount of US$153,000 per month until completion of the transaction or until termination of negotiations. This monthly funding obligation was retrospective to 1 September 2018. This monthly funding commitment has been incurred by Silex USA LLC.

7. Matters subsequent to the end of the financial year

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

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

8. Likely developments and expected results of operations

Overview

Silex is primarily focused on the development of the SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry. The development and commercialisation program has been undertaken jointly by Silex at its Lucas Heights facility and in Wilmington, North Carolina by GLE, the exclusive Licensee of the SILEX technology since 2006. GLE has been undergoing a restructure due to GEH's stated intention to exit GLE, due to changes in business priorities and the continuing adverse market conditions driven by the Fukushima disaster in 2011.

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

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

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

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

UK-based IQE Plc elected to purchase Silex subsidiary Translucent's cREO™ semiconductor material technology in early 2018, resulting in the receipt of a payment of US$5m (in IQE shares) in September 2018. IQE's business case appears to be strengthening in several key semiconductor markets of which the cREO™ technology could be utilised in a number of emerging and fast-growing semiconductor device markets. In addition to the US$5m payment received for the sale of the technology, a perpetual royalty between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. Minimum annual royalties are due for the 6 years ending 31 December 2024, with the initial minimum annual royalty of US$400,000 expected to be paid in FY2020.

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

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

Business strategies and future prospects

The SILEX Technology

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

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

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

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

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

Status of Nuclear Fuel Markets

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

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

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

The cREO™ Technology

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

Stable Isotopes

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

Outlook

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

9. Information on Directors

a) *Directors' profiles*

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

Mr Craig Roy MBA, MSc, FAICD. *Chair – Independent non-executive director*		
Experience and expertise	Independent non-executive director and Chair since January 2019. Former Deputy CEO of the CSIRO. Extensive experience as a company director and is currently a Non-executive Director of Sydney Water and Chair of the Australian Research Data Commons.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of the Board Member of Audit Committee Chair of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	150,000
	Options over ordinary shares – Silex Systems Limited	Nil

Dr Michael Goldsworthy BSc (Hons), MSc, PhD, FAIP, GAICD. *Chief Executive Officer/Managing Director*		
Experience and expertise	CEO/MD for twenty-seven years. Founder of the Company and co-inventor of the SILEX uranium enrichment technology.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chief Executive Officer / Managing Director	
Interests in shares and options	Ordinary shares – Silex Systems Limited	5,979,055
	Options over ordinary shares – Silex Systems Limited	Nil

Ms Melissa Holzberger LLM, Dip Intl Nuclear Law, LLB, BA, GDLP, FGIA, GAICD. *Independent non-executive director*		
Experience and expertise	Independent non-executive director since January 2019. Experienced company director, commercial lawyer and international nuclear law specialist. Founder and principal of the firm Sloan Holzberger Lawyers and is a member of the Federal Government's Australian Radiation Protection and Nuclear Safety Agency's (ARPANSA) Radiation Health and Safety Advisory Council.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of Audit Committee Member of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	27,777
	Options over ordinary shares – Silex Systems Limited	Nil

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

The following directors are former directors of the Silex Board:

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

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

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[1.]	Number Attended	Number Held[1.]	Number Attended	Number Held[1.]	Number Attended
Mr C A Roy*	7	7	2	2	1	1
Dr M P Goldsworthy	14	14	▲	▲	▲	▲
Ms M K Holzberger*	7	7	2	2	1	1
Mr C D Wilks	14	14	4	4	1	1
Former Directors:						
Dr L M McIntyre**	7	7	2	2	-	-
Mr R A R Lee **	7	7	2	2	-	-

1. Number of meetings held during the time the director held office or was a member of the committee during the year
▲ *Not a member of the relevant committee at the time the scheduled meetings were held*
* *From appointment on 1 January 2019*
** *Until retirement on 31 December 2018*

11. Remuneration Report

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

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

Our remuneration strategy has the following objectives:

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

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

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

Craig Roy
Chair, People & Remuneration Committee

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

The report contains the following sections:

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

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a) Directors and KMP disclosed in this report

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

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

b) Remuneration governance

<u>Board oversight</u>
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.

<u>People & Remuneration Committee structure</u>
The People & Remuneration Committee is a committee of the Board comprised of a majority of independent non-executive directors. The Chair of the committee is also an independent non-executive director. Its role is to make recommendations to the Board regarding the Company's remuneration policies and practices, including those applicable to the Company's KMP. Members of the People & Remuneration Committee as at the 30 June 2019 were as follows:

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

The role of the People & Remuneration Committee is to:

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

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

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

c) Linking remuneration structure to Company performance

Remuneration strategy, policy and framework

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

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

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

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

The executive KMP remuneration framework will comprise two components:

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

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

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

Assessing performance and claw-back of remuneration

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

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

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

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

e) Executive KMP remuneration structure

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

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

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

f) Link between FY2019 remuneration and performance

FY2019 performance and impact on remuneration

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

Statutory performance indicators

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

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

g) Contractual arrangements with executive KMPs

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

h) Non-executive directors' remuneration arrangements

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

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

The current fee structure is outlined below:

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

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

** Short-term benefits as per Corporations Regulations 2M 3.03(1) Item 6.*
*** Other long-term benefits as per Corporations Regulations 2M 3.03(1) Item 8; Amount for Dr M P Goldsworthy for 2018 includes a correction to the Long Service Leave accrual to reflect the preservation of his pre-1 January 2015 Long Service Leave entitlement at his pre-1 January 2015 TFR of $800,000. In the event Long Service Leave is taken in the ordinary course of business, payment for leave will be as per statutory requirements.*
**** Equity-settled share-based payments as per Corporations Regulations 2M.3.03(1) Item 11.*

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

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

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

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

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

* Performance criteria for $45,000 of Total opportunity expires 31 December 2019.
**The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.

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

<u>LTI - Options</u>
The terms and conditions the grant of options affecting remuneration in the current reporting period are as follows:

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

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

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

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

Options held by KMP

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

Shares held by KMP

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

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

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

Securities Trading Policy

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

12. Shares under option

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

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

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

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

13. Company secretary

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

14. Indemnification and insurance of directors

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

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

15. Environmental regulation

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

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

16. Non-audit services

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

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

The Board of Directors has considered the position and, in accordance with the advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

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

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

17. 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 28.

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

Dr M P Goldsworthy
CEO/MD
Sydney, 29 August 2019

Mr C A Roy
Chair

Auditor's Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2019, I declare that, to the best of my knowledge and belief, there have been:

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

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Silex Systems Limited and the entities it controlled during the period.

David Ronald

David Ronald
Partner
PricewaterhouseCoopers

Sydney
29 August 2019

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

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

CORPORATE GOVERNANCE STATEMENT

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

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

Silex Systems Limited
ABN 69 003 372 067

Annual financial report – 30 June 2019

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
Building 64
Lucas Heights Science & Technology Centre
New Illawarra Road
Lucas Heights NSW 2234
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 11, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 29 August 2019. The Directors have the power to amend and reissue the financial report.

All announcements, financial reports and other information are available on our website: www.silex.com.au

	Notes	2019 $	2018 $
Interest revenue	3	744,560	971,452
Other revenue	3	-	88,843
Revenue from continuing operations		744,560	1,060,295
Other income	4	1,582,190	7,552,662
Research and development materials		(240,153)	(382,999)
Development expenditure		(1,984,328)	(5,799,314)
Finance costs	5	(7)	(8)
Depreciation and amortisation expense	5	(52,746)	(40,650)
Employee benefits expense		(3,614,476)	(3,866,174)
Consultants and professional fees		(680,867)	(2,066,401)
Printing, postage, freight, stationery and communications		(63,131)	(80,977)
Rent, utilities and property outgoings		(394,392)	(419,164)
Net impairment losses		(8,553)	-
Other expenses from continuing activities		(441,205)	(536,651)
(Loss) before income tax expense		(5,153,108)	(4,579,381)
Income tax expense	6	-	-
Net (loss) from continuing operations		(5,153,108)	(4,579,381)
Net (loss) for the year		(5,153,108)	(4,579,381)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(5,153,108)	(4,579,381)

		Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company			
Basic earnings per share	20	(3.0)	(2.7)
Diluted earnings per share	20	(3.0)	(2.7)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company			
Basic earnings per share	20	(3.0)	(2.7)
Diluted earnings per share	20	(3.0)	(2.7)

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

	2019 $	2018 $
Net (loss) for the year	(5,153,108)	(4,579,381)
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
Exchange differences on translation of foreign operations	868,845	583,591
Items that will not be reclassified to profit or loss:		
Changes in the fair value of equity investments at fair value through other comprehensive income	(6,766,261)	-
Other comprehensive income for the year, net of tax	(5,897,416)	2,383,234
Total comprehensive income for the year	(11,050,524)	(2,196,147)
Attributable to:		
Owners of Silex Systems Limited	(11,050,524)	(2,196,147)
Total comprehensive income for the year	(11,050,524)	(2,196,147)

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

	Notes	30 June 2019 $	30 June 2018 $
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	2,653,590	2,002,145
Held to maturity investments - term deposits	7(b)	-	29,851,837
Other financial assets at amortised cost - term deposits	7(c)	22,200,000	-
Trade and other receivables	7(d)	1,900,118	8,452,352
Other current assets	7(e)	409,144	-
Available-for-sale financial assets	7(f)	-	9,362,123
Financial assets at fair value through other comprehensive income	7(g)	10,240,588	-
Total current assets		37,403,440	49,668,457
Non-current assets			
Property, plant and equipment	7(h)	113,924	119,178
Total non-current assets		113,924	119,178
Total assets		37,517,364	49,787,635
LIABILITIES			
Current liabilities			
Trade and other payables	8(a)	719,337	1,892,751
Provisions	8(b)	745,039	695,319
Total current liabilities		1,464,376	2,588,070
Non-current liabilities			
Provisions	8(b)	18,802	118,501
Total non-current liabilities		18,802	118,501
Total liabilities		1,483,178	2,706,571
Net assets		36,034,186	47,081,064
EQUITY			
Contributed equity	9(a)	231,750,374	231,750,374
Reserves	9(b)	12,127,493	18,021,263
Accumulated losses	9(c)	(207,843,681)	(202,690,573)
Total equity		36,034,186	47,081,064

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

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

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

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

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

Note	Contents	Page

Note 1 Significant changes in the current accounting period

In February 2019, Silex, Cameco and GE-Hitachi Nuclear Energy (GEH) executed a new Term Sheet outlining key terms for the purchase of GEH's 76% interest in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The new Term Sheet contemplates GEH selling all of its 76% interest in GLE (i.e. selling 51% of its GLE interest to Silex and its remaining 25% interest to Cameco, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals. While the new Term Sheet is primarily Non-binding, there are certain binding provisions including a financial obligation to reimburse GEH an amount of US$153,000 per month until completion of the transaction or until termination of negotiations. This monthly funding obligation was retrospective to 1 September 2018. This monthly funding commitment has been incurred by Silex USA LLC.

Note 2 Segment information

(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 three operating segments based on the reports reviewed by Management and the Board of Directors to make strategic decisions. These segments are Silex Systems, Translucent and Silex USA. Silex USA LLC was incorporated for the purpose of acquiring an interest in GLE. Silex Systems is based in New South Wales and Translucent and Silex USA are based in North Carolina.

(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 2019 is as follows:

2019	Silex Systems $	Translucent $	Silex USA $	Total $
Total segment revenue	790,191	959,186	-	1,749,377
Inter-segment revenue	(45,631)	(959,186)	-	(1,004,817)
Revenue from external customers	744,560	-	-	744,560
Interest revenue	744,560	-	-	744,560
Segment result	(3,545,576)	549,688	(2,157,220)	(5,153,108)
Depreciation and amortisation	52,746	-	-	52,746
Interest expense	7	-	-	7
Income tax expense	-	-	-	-
Total segment assets	26,416,466	10,882,803	218,095	37,517,364
Total assets include:				
Additions to non-current assets (other than deferred tax)	46,381	-	-	46,381
Total segment liabilities	1,471,464	11,714	-	1,483,178

2018	Silex Systems $	Translucent $	Silex USA $	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
Interest revenue	971,452	-	-	971,452
Recoverable project costs from IQE	-	88,843	-	88,843
	971,452	88,843	-	1,060,295
Segment result	(10,630,713)	6,051,332	-	(4,579,381)
Depreciation and amortisation	40,650	-	-	40,650
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

(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 is $744,560 (2018: $971,452) and the total segment revenue from external customers in the United States is $nil (2018: $88,843). Segment revenues are allocated based on the country in which the supplier is located.

Translucent and Silex USA are domiciled in the United States. Revenues attributable to Translucent of $nil (2018: $88,843) is derived from a single external customer.

(ii) Segment result

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

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

(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 located in Australia is $98,302 (2018: $96,299) and the total of these non-current assets located in other countries is $15,622 (2018: $22,879).

(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.

Note 3 Revenue from continuing operations

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

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. The Company does not expect that the period between the transfer of the promised goods or services to the customer and payment by the customer will exceed one year. As a consequence, the Company has not adjusted any of the transaction prices for the time value of money.

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. The revenue is recognised at a point in time.

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

Note 4 Other income

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

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 $958,879 (2018: $1,060,878) was recognised as Other income by the Company during the year. The Company has met the conditions of the tax incentive.

(ii) Profit on sale of intellectual property – sale of cREO™ technology – accounting policy and significant judgements
Variable consideration from the sale of Translucent's cREO™ technology is required to be estimated under AASB 15 *Revenue from Contracts with Customers*. Under the Option, License and Assignment Agreement signed with IQE Plc in 2015, IQE is required to make minimum royalty payments for the 6 years ending 31 December 2024. Translucent expects that the initial minimum annual royalty payment of US$400,000 will be received in February 2020. Additional variable consideration in the form of royalties relating to the sale of the cREO™ technology is calculated using the most likely amount method.

Note 5 Expenses

	2019 $	2018 $
Net (loss) from continuing operations before income tax includes the following expenses:		
Depreciation of plant and equipment	52,746	40,650
Total depreciation and amortisation	52,746	40,650
Finance costs		
Interest and finance charges paid/payable	7	8
Finance costs expensed	7	8
Rental expenses relating to operating leases - minimum lease payments	328,261	379,402
Provision for employee entitlements	16,721	79,712
Defined contribution superannuation expense	178,171	200,227
Research and development costs	5,396,606	9,482,175

Note 6 Income tax expense

This note provides an analysis of the Company's income tax expense and explains why a deferred tax asset has not been recognised by the Company.

	2019 $	2018 $
(a) Numerical reconciliation of income tax expense to prima facie tax payable		
(Loss) before income tax expense	(5,153,108)	(4,579,381)
Income tax calculated @ 30.0% (2018 - 27.5%)	(1,545,932)	(1,259,330)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	1,094	-
Unrealised exchange differences on loan balances	-	6,386
Research and development tax incentive	361,991	372,052
Sundry items	30,075	45,100
	(1,152,772)	(835,792)
Net deferred tax asset not recognised	1,056,320	620,514
Effect of higher rates on overseas income	96,452	215,278
Income tax expense	-	-

The Company's tax rate in the current year has increased to 30% as a result of the Australian Government enacting legislation during the year. Companies that derive more than 80% of their assessable income in passive forms are ineligible for the lower company tax rate of 27.5%.

	2019 $	2018 $
(b) Tax losses		
Unused tax losses for which no deferred tax asset has been recognised	163,006,115	168,170,698
Potential tax benefit at tax rate	43,565,136	38,328,645

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.

Note 7 Assets

This note provides information about the Company's assets.

Note 7(a) Current assets - Cash and cash equivalents

	2019 $	2018 $
Cash at bank and on hand	2,653,590	2,002,145

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.

Note 7(b) Current assets - Held to maturity investments - Term deposits

	2019 $	2018 $
Bank deposits	-	29,851,837

Held to maturity investments at 30 June 2018 were non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management had the positive intention and ability to hold to maturity. Held to maturity financial assets were included in current assets as all had maturities less than 12 months from the end of the reporting period.

The bank deposits at 30 June 2018 earn interest at between 2.35% and 2.80%. Refer also note 23 for impact of new accounting standards.

Note 7(c) Current assets - Other financial assets at amortised cost - Term deposits

	2019 $	2018 $
Bank deposits	22,200,000	-

Other financial assets at amortised cost 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. Other financial assets at amortised cost are included in current assets as all have maturities less than 12 months from the end of the reporting period.

The bank deposits at 30 June 2019 earn interest at between 2.00% and 2.80%. Refer also to note 23 for impact of new accounting standards.

Note 7(d) Current assets - Trade and other receivables

	2019 $	2018 $
Trade debtors	-	9,771
Receivable from sale of Translucent's cREO™ technology	-	6,754,019
Other receivables	18,814	16,611
Derivative financial instruments - forward exchange contracts	5,439	31,251
Accrued income from sale of Translucent's cREO™ technology	570,184	-
Accrued income – other	1,314,234	1,487,852
Prepayments	-	152,848
Loss allowance (see note 12(c))	(8,553)	-
	1,900,118	8,452,352

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are due for settlement no more than 60 days from the date of recognition. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Company holds trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

(i) Impairment of receivables
Information about the impairment of receivables can be found in note 12(c).

(ii) Receivable from sale of Translucent's cREO™ technology
The prior year amount relates to the US$5 million receivable from IQE Plc from the sale of Translucent's cREO™ technology in FY2018 that was received (in IQE shares) in September 2018.

(iii) Other receivables
These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

(iv) Accrued income
Accrued income includes accrued research and development tax incentive, accrued interest and accrued consideration from the sale of Translucent's cREO™ technology (royalties).

(v) 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.

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

Note 7(e) Current assets - Other current assets

	2019 $	2018 $
Prepayments	409,144	-

Note 7(f) Current assets - Available-for-sale financial assets

	2019 $	2018 $
Listed securities		
Equity securities – shares in IQE Plc	-	9,362,123

(i) Classification of financial assets as available-for-sale

Investments were designated as available-for-sale financial assets in the prior year if they did not have fixed maturities and fixed or determinable payments, and the Company intended to hold them for the medium to long-term. They were presented as non-current assets unless the Company intended to dispose of them within 12 months of the end of the reporting period. Refer also to note 23 for the impact of new accounting standards.

(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.

	2019 $	2018 $
Gains recognised in other comprehensive income (refer note 9(b))	-	1,799,643

Note 7(g) Current assets - Financial assets at fair value through other comprehensive income

	2019 $	2018 $
Listed securities		
Equity securities – shares in IQE Plc	10,240,588	-

(i) Classification of financial assets at fair value through other comprehensive income

The Company has irrevocably elected to value its shares in IQE at 30 June 2019 as financial assets at fair value through other comprehensive income. Refer also to note 23 for the impact of new accounting standards.

(ii) Impairment indicators for financial assets at fair value through other comprehensive income 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 financial assets at fair value through other comprehensive income 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.

	2019 $	2018 $
(Losses) recognised in other comprehensive income (refer note 9(b))	(6,766,261)	-

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

	Plant and equipment $	Motor vehicles $	Total $
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
Year ended 30 June 2019			
Opening net book amount	96,299	22,879	119,178
Exchange differences	-	1,111	1,111
Additions	46,381	-	46,381
Disposals	-	-	-
Depreciation charge	(44,378)	(8,368)	(52,746)
Closing net book value	98,302	15,622	113,924
At 30 June 2019			
Cost	929,506	53,613	983,119
Accumulated depreciation	(831,204)	(37,991)	(869,195)
Net book amount	98,302	15,622	113,924

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 (refer 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.

Note 7(i) Deferred tax assets

	2019 $	2018 $
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for employee entitlements, warranties, restructuring and decommissioning	229,152	223,801
Depreciation and amortisation	70,934	453,801
Payables not deductible	2,533,118	3,324,608
Credit losses	2,010	-
Tax losses	43,565,136	38,328,645
	46,400,350	42,330,855
Set-off deferred tax liabilities pursuant to set-off provisions	(3,949,961)	(4,113,221)
Net deferred tax assets not recognised*	(42,450,389)	(38,217,634)
Net deferred tax assets	-	-

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

Note 8 Liabilities

This note provides information about the Company's liabilities.

Note 8(a) Current liabilities - Trade and other payables

	2019 $	2018 $
Trade creditors	398,667	1,462,923
Other payables	320,670	429,828
	719,337	1,892,751

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:

	2019 $	2018 $
Annual leave obligations expected to be settled after 12 months	28,042	33,369

(ii) Risk exposure

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

Note 8(b) Provisions

	2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
	$	$	$	$	$	$
Employee benefits - long service leave	558,958	18,802	577,760	549,238	78,501	627,739
Warranty provision	146,081	-	146,081	146,081	-	146,081
Make good provision	40,000	-	40,000	-	40,000	40,000
	745,039	18,802	763,841	695,319	118,501	813,820

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

The current provision for long service 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.

	2019	2018
	$	$
Current long service leave obligations expected to be settled after 12 months	503,062	414,322

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

	Warranty
	$
Carrying amount at start of the year	146,081
Carrying amount at end of the year	146,081

Provision is made for the estimated warranty claims in respect of solar panels that were previously sold by the Company. 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	40,000
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

Note 8(c) Non-current liabilities - Deferred tax liabilities

	2019	2018
	$	$
The balance comprising temporary differences attributable to:		
Foreign currency cash balances and loans	3,275,620	2,204,635
Available-for-sale financial assets	-	1,788,177
Financial assets at fair value through other comprehensive income	257,622	-
Accrued income	416,719	120,409
	3,949,961	4,113,221
Set off deferred tax liabilities pursuant to set-off provisions	(3,949,961)	(4,113,221)
Net deferred tax liabilities	-	-

Note 9 Equity

The note provides information about the Company's equity.

Note 9(a) Contributed equity

	Parent entity		Parent entity	
	2019	2018	2019	2018
	Shares	Shares	$	$
(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 2017	Balance	170,467,339	231,750,374
30 June 2018	Balance	170,467,339	231,750,374
30 June 2019	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 Incentive Plan, 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.

Note 9(b) Reserves

	2019	2018
	$	$
Foreign currency translation reserve	(63,317)	(932,162)
Revaluation - Available-for-sale financial assets	-	7,233,124
Revaluation - Fair value through other comprehensive income	466,863	-
Transactions with non-controlling interests	(2,906,913)	(2,906,913)
Share based payments reserve	14,630,860	14,627,214
	12,127,493	18,021,263

	2019 $	2018 $
Movements		
Foreign currency translation reserve		
Balance at the beginning of the financial year	(932,162)	(1,515,753)
Net exchange differences on translation of foreign controlled entity	868,845	583,591
Balance at the end of the financial year	(63,317)	(932,162)

	2019 $	2018 $
Revaluation - Available-for-sale financial assets		
Balance at the beginning of the financial year	7,233,124	5,433,481
Reclassification on adoption of AASB 9	(7,233,124)	-
Differences on revaluation	-	1,799,643
Balance at the end of the financial year	-	7,233,124

	2019 $	2018 $
Revaluation - Fair value through other comprehensive income		
Balance at the beginning of the financial year	-	-
Reclassification on adoption of AASB 9	7,233,124	-
Differences on revaluation	(6,766,261)	-
Balance at the end of the financial year	466,863	-

	2019 $	2018 $
Transactions with non-controlling interests		
Balance at the beginning of the financial year	(2,906,913)	(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)	(2,906,913)

	2019 $	2018 $
Share based payments reserve		
Balance at the beginning of the financial year	14,627,214	14,627,214
Share based payment expense	3,646	-
Balance at the end of the financial year	14,630,860	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. Refer also to note 23 for the impact of new accounting standards.

(iii) Revaluation – Fair value through other comprehensive income

Changes in the fair value of investments that are classified as fair value through other comprehensive income are recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts are not reclassified to profit or loss when the associated assets are sold or impaired.

(iv) 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.

(v) Share based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

Note 9(c) Accumulated losses

	2019 $	2018 $
Accumulated losses at the beginning of the financial year	(202,690,573)	(198,111,192)
Net (loss) attributable to members of Silex Systems Limited	(5,153,108)	(4,579,381)
Accumulated losses at the end of the financial year	(207,843,681)	(202,690,573)

Note 10 Cash flow information

(a) Reconciliation of net (loss) after income tax to net cash (outflows) from operating activities

	2019 $	2018 $
Net (loss) after income tax	(5,153,108)	(4,579,381)
Depreciation and amortisation	52,746	40,650
Non cash employee benefits expense - share based payments	3,646	-
(Profit) on sale of intellectual property	(570,184)	(6,301,408)
(Profit) on sale of plant and equipment	(27,273)	(128,600)
Net exchange differences	(29,003)	(23,461)
(Increase)/decrease in prepayments and other current assets	(256,296)	47,401
Decrease/(increase) in trade and other debtors	41,933	(17,177)
Decrease in accrued income - other	173,618	114,036
(Decrease)/increase in trade and other creditors	(1,173,414)	45,767
(Decrease)/increase in provisions	(49,979)	64,825
Net cash (outflows) from operating activities	(6,987,314)	(10,737,348)

(b) Non-cash investing and financing activities

	2019 $	2018 $
Acquisition of equity securities from sale of cREO™ technology receivable	6,917,543	-

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.

The area involving significant estimates or judgements is the recognition of variable consideration (in the form of royalties) from the sale of Translucent's cREO™ technology (note 4).

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$250,000 (2018: US$675,000) to purchase USD with contractual maturity dates up to July 2019 (2018: up to August 2018) 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 $5,439 and is recorded in Current assets – trade and other receivables (2018: $31,251)

(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:

	2019 AUD	2018 AUD
Cash and cash equivalents	80,995	45,916
Trade payables	-	742,942
Forward exchange contracts - buy foreign currency	356,365	911,793

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	
	2019	2018	2019	2018
	$	$	$	$
AUD/USD - increase by 15%	(57,047)	(27,974)	(57,047)	(27,974)
AUD/USD - decrease by 15%	77,181	37,848	77,181	37,848

The Company owns shares in IQE Plc, a UK based company, resulting from the Option, 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 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 $1,335,729 (2018: $1,221,147) and a 15% decrease in the AUD/GBP would increase other components of equity by $1,807,163 (2018: $1,652,139).

(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 2019		30 June 2018	
	Weighted average interest rate %	Balance $	Weighted average interest rate %	Balance $
Cash and cash equivalents	1.56%	2,592,252	1.79%	1,840,367

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	
	2019 $	2018 $	2019 $	2018 $
Interest rates - increase by 1.00%	17,509	21,513	17,509	21,513
Interest rates - decrease by 1.00%	(17,509)	(21,513)	(17,509)	(21,513)

(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 financial assets at fair value through other comprehensive income (available-for-sale financial assets at 30 June 2018).

The impact of an increase or decrease in the IQE share price 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 $1,024,059 (2018: $936,212) and a 10% decrease in IQE's share price would reduce other components of equity by $1,024,059 (2018: $936,212). The impact of a 20% increase in IQE's share price would increase other components of equity by $2,048,118 (2018: $1,872,425) and a 20% decrease in IQE's share price would reduce other components of equity by $2,048,118 (2018: $1,872,425).

(c) Credit risk
Credit risk arises from cash and cash equivalents, term deposits and receivables. The Company has a concentration of credit risk with its main receipts in recent years coming from IQE Plc (in relation to the licensing and sale of Translucent's cREO™ 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).

	2019 $	2018 $
Trade receivables *		
Group 2	-	9,771
Total trade receivables	-	9,771

* Group 2 – existing customers (more than 6 months) with no defaults in the past.

Impairment of financial assets

While cash and cash equivalents are subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial. All of the Company's term deposits (disclosed under AASB 9 as Other financial assets at amortised cost) are considered to have low credit risk given the credit ratings of the bank where the deposits are held. The Company has reviewed the credit ratings and corporate default rates of the various banks by credit rating agencies. Applying the expected credit loss model, the identified impairment loss was immaterial at 30 June 2019 and 30 June 2018.

	2019 $	2018 $
Cash and cash equivalents and term deposits		
ANZ Banking Group Limited	9,673,149	11,644,870
National Australia Bank	7,000,000	7,800,000
Bendigo and Adelaide Bank Limited	1,000,000	5,000,000
Bank of Queensland	7,100,000	7,300,000
Bank of America	80,439	109,110
Other	2	2
	24,853,590	31,853,982

Trade and other receivables are subject to the expected credit loss model. The receivable at 30 June 2018 from the sale of Translucent's cREO™ technology was backed by an equal amount held in an escrow account with a bank. After reviewing credit rating and corporate default rates in reports from credit rating agencies, the identified impairment loss was immaterial. The receivable was subsequently settled and payment received in full.

Impairment losses for accrued interest revenue and accrued Research and development tax incentive were also immaterial (at 30 June 2019 and also 30 June 2018) after reviewing the credit ratings of the various banks (interest) and the Federal Government (Research and development tax incentive). The Company also had accrued income at 30 June 2019 of $570,184 from the sale of Translucent's cREO™ technology. This related to additional consideration in the form of royalties. Using a 1.5% expected credit loss rate to this current balance a loss allowance of $8,553 was booked at 30 June 2019 (2018: $nil).

No adjustment to the carrying value of Trade and other receivables at 30 June 2018 was made as a result of adoption of the expected credit losses approach under AASB 9 Financial Instruments on 1 July 2018.

In the prior year, the impairment of receivables was assessed based on the incurred loss model.

(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:

	2019 $	2018 $
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 2019	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	719,137	-	-	-	-	719,137	719,137
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	719,137	-	-	-	-	719,137	719,137
Derivatives							
Forward foreign exchange contracts	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

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	-	-	-	-	-	-	-
	-	-	-	-	-	-	-

(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 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	2019 %	2018 %
Translucent Inc	United States of America	Ordinary	100.0%	100.0%
		Total	100.0%	100.0%
ChronoLogic Pty Ltd*	Australia	Ordinary	79.6%	79.6%
		Preference	100.0%	100.0%
		Total	90.0%	90.0%
Silex USA LLC	United States of America	Interest	100%	100%
		Total	100%	100%

** The ChronoLogic business closed in September 2014 and is pending deregistration.*

(b) Transactions with non-controlling interests

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

Note 14 Contingent liabilities

As announced on 6 February 2019, Silex, Cameco and GE-Hitachi Nuclear Energy (GEH) executed a new Term Sheet outlining key terms for the purchase of GEH's 76% interest in GE-Hitachi Global Laser Enrichment LLC (GLE), the exclusive Licensee of the SILEX technology. The new Term Sheet contemplates GEH selling all of its 76% interest in GLE (i.e. selling 51% of its GLE interest to Silex and its remaining 25% interest to Cameco, increasing its interest in GLE from 24% to 49%). The transaction is subject to the satisfactory finalisation of binding transaction documentation and obtaining US Government approvals.

In the event Silex terminates the new Term Sheet (without cause), a termination fee of US$500,000 will be payable to GEH. In the event binding transaction documentation is signed, then Silex is required to make a payment to GEH of US$1.125 million in lieu of a holdback to the reimbursements paid to GEH under the original Term Sheet. At the current point in time, the amount and timing of any outflow of funds is uncertain and subject to Silex either terminating the new Term Sheet or signing binding transaction documentation. Therefore, these two amounts are considered to be contingent liabilities of the Company.

Note 15 Commitments for expenditure and guarantees

	2019 $	2018 $
(a) Capital commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Property, plant and equipment	-	-

	2019 $	2018 $
(b) Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	257,530	286,482
Later than one year but not later than five years	7,328	225,223
	264,858	511,705

(c) Guarantees entered into by the Company

The Company has provided guarantees totalling $nil at 30 June 2019. In the prior year, the Company provided a guarantee totalling $51,837 for rent of its corporate office premises.

Note 16 Events occurring after reporting date

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

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

Note 17 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 13(a).

(b) Key management personnel

	2019 $	2018 $
Short-term employee benefits	1,149,581	1,090,979
Post-employment benefits	72,862	68,398
Long-term benefits	16,197	54,762
Share based payments	1,322	-
	1,239,962	1,214,139

(c) Transactions with related parties

The following transactions occurred with related parties:

	2019 $	2018 $
Contributions to superannuation funds on behalf of employees	185,271	211,827

Note 18 Share-based payments

(a) Silex Systems Limited Employee Incentive Plan

The Silex Systems Limited Employee Incentive Plan (the Plan) was established in May 2019 by a resolution of the Silex Board. All full-time and part-time staff of the consolidated entity and executive directors of the consolidated entity are eligible to participate in the Plan.

Under the Plan, the options issued in May 2019 were granted for no consideration. The Options were granted for a five-year period and become exercisable after three years of the date of the grant. The options lapse if the holder ceases to be an eligible employee other than by reason of death or permanent disablement, unless the Board determines otherwise in its absolute discretion. Options granted under the plan carry no dividend or voting rights.

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

Set out below are summaries of options granted under the plan:

Consolidated and parent entity – 2019

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)
21/05/2019	20/05/2024	35	-	500,000	-	-	500,000	-
			-	500,000	-	-	500,000	-
Weighted average exercise price			-	$0.35	-	-	$0.35	-

The market price of shares under option at 30 June 2019 was $0.40. The weighted average remaining contractual life of share options outstanding at the end of the period was 4.9 years.

No options were issued, lapsed or exercised in the prior year. No shares were issued in the current or prior year.

Fair value of options granted

The assessed fair value at grant date of options was 16.35 cents for the options issued 21 May 2019. 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 impact of dilution, 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 model inputs for options granted during the year ended 30 June 2019 included:

(i) Options are granted for no consideration and 100% vest after three years
(ii) Exercise price $0.35
(iii) Grant date: 21 May 2019
(iv) Expiry date: 20 May 2024
(v) Share price at grant date: $0.34
(vi) Expected volatility of the Company's shares: 65%
(vii) Expected dividend yield: nil
(viii) Risk-free interest rate: 1.5%

The expected price volatility is based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information.

(b) Options to be granted (subject to shareholder approval)

100,000 options may be granted to the CEO/MD in the event shareholder approval is granted at the 2019 AGM. The options will have an exercise price of $0.35, which is based on the weighted average price at which the Company's shares traded on the Australian Stock Exchange during the ten trading days prior to 21 May 2019 (i.e. the same date options were granted to other staff). If approved by shareholders, the options will vest on 21 May 2022 and will have an expiry date of 20 May 2024. In accordance with AASB 2 *Share-based Payment,* the Company has estimated the grant date fair value of the options as at 30 June 2019. The fair value has been calculated at 20.85 cents per option.

(c) Expenses arising from share-based transactions

Total expenses arising from share-based payment transactions recognised during the period as part of remuneration expense were as follows:

	2019 $	2018 $
Options granted	2,905	-
Options to be granted (subject to shareholder approval)	741	-
	3,646	-

Note 19 Remuneration of auditors

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

	2019 $	2018 $
(a) Audit and other assurance services		
Audit and review of financial reports	75,000	100,980
Total remuneration for audit and assurance services	75,000	100,980
(b) Other services		
Seminars and training courses	-	450
Total remuneration for other services	-	450
Total auditors' remuneration	75,000	101,430

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

(a) Basic earnings per share	2019 Cents	2018 Cents
Total basic earnings per share attributable to the ordinary equity holders of the Company	(3.0)	(2.7)

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	2019 Cents	2018 Cents
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(3.0)	(2.7)

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.

(c) Reconciliation of earnings used in calculating earnings per share

	2019 $	2018 $
Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(5,153,108)	(4,579,381)
Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the Company used in calculating basic earnings per share	(5,153,108)	(4,579,381)

	2019 Number	2018 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 current 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:

	2019 $	2018 $
Balance Sheet		
Current assets	26,667,528	33,433,946
Total assets	26,767,956	33,568,120
Current liabilities	1,452,662	2,232,734
Total liabilities	1,471,464	2,351,235
Net assets	25,296,492	31,216,885
Shareholders' equity		
Issued capital	231,750,374	231,750,374
Reserves		
Share based payments	14,435,986	14,432,340
Accumulated losses	(220,889,868)	(214,965,829)
Total equity	25,296,492	31,216,885
Net (loss) for the period	(5,924,039)	(10,644,323)
Total comprehensive income	(5,924,039)	(10,644,323)

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 $nil (2018: $51,837) bank guarantee for the rent of its corporate office premises. The corporate office lease was terminated in October 2018.

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

As at 30 June 2019 (and 30 June 2018), 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.

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
- Financial assets at fair value through other comprehensive income are measured at fair value.

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 for the first time for the annual reporting period commencing 1 July 2018:

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

Silex had to change its accounting policies following the adoption of AASB 9 and AASB 15. This is disclosed in note 23.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 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 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 Company will apply the new standard from 1 July 2019.

The standard will primarily affect the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $264,858 over the next four years (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 Printing, postage, freight, stationery and communications 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. The Company expects to recognize a right-of-use asset and lease liability of approximately $256,000 on 1 July 2019. The new standard will have minimal impact on net losses given the small value of lease liabilities.

Silex intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. All right-of-use assets will be measured as the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

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 2019 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

(i) Classification

From 1 July 2018, the Company classifies its financial assets in the following categories:

- those to be measured subsequently at fair value (either through Other comprehensive income (OCI) or through profit or loss), and
- those to be at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether Silex has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Silex reclassifies debt investments when and only when its business model for managing those assets changes.

(ii) Measurement

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss are expensed in profit or loss.

Debt instruments

Subsequent measurement of debt instruments depends on the group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises

Equity instruments

The Company subsequently measures all equity investments at fair value. Where the Company's Management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(iii) *Impairment*

From 1 July 2018, the Company assesses on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. Refer note 12(c) for further details.

(iv) Accounting policies applied until 30 June 2018

The Company has applied AASB 9 *Financial Instruments* retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Company's previous accounting policy.

Classification

Until 30 June 2018, the Company classified 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 depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and re-evaluated this designation at each reporting date.

Subsequent measurement

Subsequent to the initial recognition, loans and receivables and held to maturity investments were carried at amortised cost using the effective interest method.

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

Impairment

The Company assessed at each balance date whether there was objective evidence that a financial asset or group of financial assets was 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 had been raised.

If there was 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 – was 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 provided to employees via the Silex Systems Limited Employee Incentive Plan (the Plan) which was established in May 2019.

The fair value of options granted under the Plan are recognised as an employee benefit expense with a corresponding increase in equity in the share-based payments reserve. 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 Company 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.

In addition, under the Plan, Performance Rights and Exempt Share Awards may be granted. They 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. This may be used as a short-term or long-term incentive vehicle.

The fair value of the performance rights is recognised as an expense over the relevant service period,

(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.

Note 23 Changes in accounting policies

This note explains the impact of adoption of AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers* on 1 July 2018 on the Company's financial statements.

(a) Impact on the financial statements

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

	30 June 2018 as originally presented $	Impact of AASB 9 $	Impact of AASB 15 $	1 July 2018 Restated $
Balance sheet (extract)				
Current assets				
Held to maturity investments - term deposits	29,851,837	(29,851,837)	-	-
Other financial assets at amortised cost - term deposits	-	29,851,837	-	29,851,837
Trade and other receivables	8,452,352	-	(152,848)	8,299,504
Other current assets	-	-	152,848	152,848
Available-for-sale financial assets	9,362,123	(9,362,123)	-	-
Financial assets at fair value through other comprehensive income	-	9,362,123	-	9,362,123

(b) AASB 9 *Financial Instruments* – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in AASB 9 paragraphs 7.2.15 and 7.2.26, comparative figures have not been restated.

Reclassification from Held to maturity investments to Other financial assets at amortised cost
Term deposits that would previously have been classified as Held to maturity investments are now classified as Other financial assets at amortised cost. The Company intends to hold the term deposits to maturity to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding. There was no difference between the previous carrying amount and the revised carrying amount at 1 July 2018 to be recognized in opening accumulated losses.

Reclassification from Available-for-sale financial assets to Financial assets through other comprehensive income
The Company elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for sale. As a result, assets with a fair value of $9,362,123 were reclassified from Available-for-sale financial assets to Financial assets at fair value through other comprehensive income on 1 July 2018. Fair value gains of $7,233,124 were reclassified from Revaluation – Available-for-sale financial assets reserve to the Revaluation - Fair value through other comprehensive income reserve on 1 July 2018.

Impairment of financial assets
The Company has applied the new expected credit loss model to its financial assets however, no additional impairment was required at 30 June 2018 as follows:

- While Cash and cash equivalents are subject to the impairment requirements of AASB 9, the identified impairment loss was immaterial;
- All of the Company's term deposits (disclosed under AASB 9 as Other financial assets at amortised cost) are considered to have low credit risk given the credit ratings of the bank where the deposits are held. The Company has reviewed the credit ratings and corporate default rates of the various banks by credit rating agencies. Applying the expected credit loss model, the identified impairment loss was immaterial;
- The US$5 million receivable from the sale of Translucent's cREO™ technology was backed by an equal amount held in an escrow account with a bank. After reviewing credit rating and corporate default rates in reports from credit rating agencies, the identified impairment loss was immaterial. The receivable was subsequently settled in September 2018 and payment received in full;
- Impairment losses for accrued income were also immaterial after reviewing the credit ratings of the various banks (interest) and the Federal Government (Research and development tax incentive); and
- The Company applied the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for trade receivables. Using this approach, impairment losses were immaterial.

(c) AASB 9 *Financial Instruments* - Accounting policies applied from 1 July 2018

From 1 July 2018, the Company classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value, either through Other comprehensive income (OCI), or through profit or loss; and
- those to be measured at amortised cost.

The classification depends on the Company's business model for managing the financial asset and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transactions costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss are expensed in profit or loss.

The Company subsequently measures all equity investments at fair value. Where the Company's Management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Company's right to receive payments is established.

If applicable, the Company reclassifies debt investments when and only when its business model for managing those assets changes.

Subsequent measurement of debt instruments depends on the Company's business model for managing the asset and the cash flow characteristics of the asset. Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest revenue from these financial assets is included in revenue using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as a separate line item in the statement of profit or loss.

From 1 July 2018, the Company assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

(d) AASB 15 *Revenue from Contracts with Customers* – Impact of adoption

The Company has adopted AASB 15 from 1 July 2018.

The Company has voluntarily changed the presentation of certain amounts in the balance sheet to reflect the terminology of AASB 15 (and AASB 9). Prepayments were previously presented together with trade receivables however they are now presented as Other current assets in the balance sheet to reflect their different nature. The value of prepayments at 30 June 2018 was $152,848.

(e) AASB 15 *Revenue from Contracts with Customers* – Accounting policies applied from 1 July 2018

The Company has adopted AASB 15 from 1 July 2018 which resulted in changes in accounting policy with respect to potential Royalty income from IQE Plc. Under the 2015 Option, License and Assignment Agreement between Translucent and IQE, a perpetual royalty of between 3% and 6% will be payable to Translucent on the sale of any IQE products that utilise the cREO™ technology. Minimum annual royalties are due for the 6 years ending 31 December 2024, with the initial minimum annual royalty payment of US$400,000 expected to be paid in FY2020. In accordance with AASB 15, the royalties are accounted for as additional variable consideration for the sale of the technology. Revenue is required to be estimated for the royalties if it is highly probable that a significant reversal would not subsequently occur. The Company has elected to use the most likely method to value the amount of variable consideration. At the end of each reporting period, the Company will update its assessment of the variable consideration based on the most likely method.

In the directors' opinion:

(a) the financial statements and notes set out on pages 30 to 68 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 2019 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 A Roy
Chair

Sydney

29 August 2019

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:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

(b) 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 2019
- 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.

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

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T +61 2 9659 2476, F +61 2 8666 999, www.pwc.com.au

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 $0.26m million, which represents approximately 5% of the Group's loss before tax. • 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 chose Group loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. • 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 its subsidiary, Translucent Inc, given their significance to the financial position as at 30 June 2019 and the results of the Group for the year then ended as a whole.	• Amongst other relevant topics, we communicated the following key audit matter to the Audit Committee: – Revenue recognition with respect to the sale of cREO™ technology • This is 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
Revenue recognition with respect to the sale of the cREO™ technology (Refer to Note 4 ($570k)) . In March 2018, IQE Plc elected to acquire the 'Rare Earth Oxide' (cREO™) technology of the Company's subsidiary Translucent Inc and as a result, 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 royalties due to commence to be paid from FY2020 to FY2025. Judgement is involved in the recognition of revenue related to these royalties as revenue is accrued in accordance with the "most likely method" outlined in the accounting standard. We considered this matter a key audit matter because of the judgement involved in accurately recognising revenue for the variable consideration from the sale of cREO™ technology.	Our audit procedures included: • reading the Option, License and Assignment Agreement dated 15 September 2015, among the Company, Translucent Inc and IQE Plc, and the Deed of IP Assignment dated 13 April 2018, between Translucent Inc and IQE Plc • assessing whether the Group's accounting policy is in accordance with Australian Accounting Standards • agreeing the income recorded to the Group's calculation in accordance with the schedule of minimum royalty payments included in the agreement • Considering the judgement applied by the Group in the recognition of this revenue

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 2019, 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 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 on the other information that we obtained prior to the date of this auditor's report, 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 16 to 25 of the directors' report for the year ended 30 June 2019.

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

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

David Ronald

David Ronald
Partner

Sydney
29 August 2019

Shareholders' information

1. Information relating to shareholders as at 26 August 2019
(a) Distribution schedule

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

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

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

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

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

2. Interest of directors in shares as at 26 August 2019

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

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

4. Unquoted equity securities as at 26 August 2019

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