



ASX: SLX OTCQX: SILXY

# Silex Systems Limited

ABN 69 003 372 067

## Appendix 4D

### ASX Half-year information – 31 December 2016

Lodged with the ASX under Listing Rule 4.2A

This information should be read in conjunction with the 30 June 2016 Annual Report and the full financial report for the year ending 30 June 2016.

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Silex Systems Limited  
half-year ended 31 December 2016  
(Previous corresponding period:  
half-year ended 31 December 2015)

Results for announcement to the market

	31 December 2016 \$	30 June 2016 \$	Movement \$	Movement %	
Cash and cash equivalents and Held to maturity investments	46,995,894	51,282,074	(4,286,180)	8.4%	↓
	Half-year ended 31 December 2016 \$	Half-year ended 31 December 2015 \$	Movement \$	Movement %	
Revenue from continuing operations	727,121	825,063	(97,942)	11.9%	↓
Revenue from discontinued operations	230,947	1,738,165	(1,507,218)	86.7%	↓
<b>Revenue from ordinary activities</b>	<b>958,068</b>	<b>2,563,228</b>	<b>(1,605,160)</b>	<b>62.6%</b>	<b>↓</b>
<b>Earnings before interest, tax, depreciation, amortisation and impairment from continuing operations (EBITDA)</b>	<b>(5,390,067)</b>	<b>(1,214,914)</b>	<b>(4,175,153)</b>	<b>343.7%</b>	<b>↑</b>
Net loss from continuing operations after tax attributable to members	(4,675,637)	(406,846)	(4,268,791)	1,049.2%	↑
Net profit/(loss) from discontinued operations after tax attributable to members	91,095	(610,977)	702,072	N/A	
<b>Net loss from ordinary activities after tax attributable to members</b>	<b>(4,584,542)</b>	<b>(1,017,823)</b>	<b>(3,566,719)</b>	<b>350.4%</b>	<b>↑</b>
<b>Net loss for the period attributable to members</b>	<b>(4,584,542)</b>	<b>(1,017,823)</b>	<b>(3,566,719)</b>	<b>350.4%</b>	<b>↑</b>
<b>No dividends have been paid or proposed during the reporting period</b>					

#### Overview

Silex Systems is a research and development company whose primary asset is the SILEX laser uranium enrichment technology. Silex's main activity is the development and commercialisation program being undertaken on the SILEX technology in conjunction with exclusive licensee, GE-Hitachi Global Laser Enrichment LLC (GLE). During the half-year ended 31 December 2016:

- Silex continued its efforts to lead the process to restructure and attract new investors to GLE to support GLE's path to market. In accordance with the provisions of a Term Sheet signed by Silex and GE-Hitachi Nuclear Energy (GEH) on 29 April 2016, Silex holds an exclusive, assignable option over GEH's 76% equity stake in GLE;
- An agreement between GLE and the US Department of Energy (DOE) for the sale to GLE of approximately 300,000 metric tons of uranium stockpiles (in the form of 'high assay' depleted UF<sub>6</sub> tails left over from previous enrichment operations) was executed (refer ASX Announcement 11 November 2016). The agreement provides the opportunity to construct the world's first laser enrichment facility in Paducah, Kentucky using the SILEX technology to re-enrich the depleted UF<sub>6</sub> tails for sale in to the global uranium market for production of nuclear power plant fuel;

## Silex Systems Limited

### Results for announcement to the market (continued)

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- Silex and GEH agreed to extend the Term Sheet for the GLE restructure through to 31 March 2017 to allow the parties additional time to work towards a mutually acceptable restructure of GLE (extension signed 3 January 2017). Pursuant to the extension, Silex will continue to lead efforts to secure new investors for GLE and will continue to contribute 76% of the funding of GLE's Wilmington, North Carolina operations in addition to funding Silex's laser development activities at its Lucas Heights facility south of Sydney; and
- The SILEX technology commercialisation project continues to make steady progress at the Wilmington Test Loop facility and at the Lucas Heights laser development facility.

The increase in the net loss from ordinary activities of \$3.6m to \$4.6m reflects the Company's continued investment in the technology and commercialisation activities for the SILEX technology. This includes the activities related to the GLE restructure and the obligation to reimburse GEH for their pro-rata share of funding for the GLE Wilmington operations. Further details on the increase in the net loss are provided below.

#### **The SILEX Technology Commercialisation Program**

The core focus of the Company is firmly set on the commercialisation program for the SILEX laser uranium enrichment technology and the securing of new investors as part of the restructure of GLE. With respect to the GLE restructure, at the time of writing a number of potential investors are in advanced stages of due diligence, whilst Silex and GEH continue to work on the formal agreement documentation that may result in the sale of GEH's 76% stake in GLE to Silex and other new investors. The commercialisation program activities involving engineering scale-up and economic validation are also advancing. Meanwhile, business development activities to support implementation of GLE's Paducah project continue to progress at a steady pace despite the slowing of the program in 2014 due to adverse market conditions.

The commercialisation program and GLE restructure have continued despite challenging market conditions that have persisted since the Fukushima accident in 2011. The demand for nuclear fuel, and specifically uranium and enrichment services remains low with prices depressed. The continued slow pace of the restart of the Japanese nuclear reactor fleet, the announcement of the premature retirement of a number of reactors in the US and Europe and weaker growth being forecast for the nuclear industry has resulted in an inventory oversupply situation for all components of nuclear reactor fuel. It will likely be several years until we see a more balanced supply and demand scenario in the nuclear fuel markets.

We have recently witnessed a turnaround in the global spot uranium market price, having increased over 25% from a low of US\$17.80 in November 2016 to current prices of US\$22.50 (ref: Ux Consulting). We suspect this is a result of announcements of curtailed production plans of several uranium suppliers in recent months. Despite these positive price movements, it is expected to take several more years before the market pricing for term uranium contracts reach the levels required to support the economic viability of the Paducah project. That said, the long-term fundamentals provide a positive outlook for the nuclear industry, as evidenced by the start-up of 10 new reactor units in the past year bringing the total of number of operable reactors globally to 447. Moreover, with an additional 60 reactors under construction and 164 planned – the demand and supply fundamentals of nuclear fuel markets are expected to recover in coming years, which we believe will underpin the commercialisation program for the SILEX technology through the Paducah opportunity.

This half-year report should be read in conjunction with the Operational Update released in conjunction with this report and recent ASX announcements.

#### **Cash and cash equivalents & Held to maturity investments**

Our cash balance as at 31 December 2016 was \$47.0m, a net decrease of \$4.3m during the half-year primarily due to our ongoing commitment to the SILEX technology commercialisation program in Sydney and in Wilmington, including our obligation to reimburse GEH for their pro-rata share of GLE funding in support of the GLE restructure. During the 6 months to 31 December 2016, Silex reimbursed GEH \$2.2m (\$nil for the half-year ended 31 December 2015).

Net cash outflows from operating activities for the half-year to 31 December 2016 were \$4.7m compared to \$6.7m for the half-year ended 31 December 2015. This improvement was mainly due to a \$2.4m reduction in payments to suppliers and employees in the current half-year. Reduced payments as a result of the Company's own restructure activities undertaken since 2014 more than offset the \$2.2m paid to GEH.

## Silex Systems Limited

### Results for announcement to the market (continued)

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Receipts during the current period included \$0.9m interest (compared to \$1.4m in the half-year ended 31 December 2015) and \$0.5m from the sale of property, plant and equipment, and intangibles from discontinued operations (compared to \$2.6m in the half-year ended 31 December 2015). The receipt of \$0.5m reflects the final sale of assets held by Solar Systems.

#### **Revenue from ordinary activities**

There was a reduction of \$1.6m in revenue from ordinary activities during the half-year. Of this reduction, Revenue from discontinued operations reduced by \$1.5m. This was mainly due to a \$1.4m reduction in License fees (the prior corresponding period included \$1.5m License fee income resulting from the License and Assignment Agreement with IQE Plc signed in September 2015). Revenue from continuing operations reduced by \$0.1m. Interest income decreased from \$0.8m in the previous corresponding period to \$0.7m in the current period as a result of lower average cash / term deposit holdings and lower interest rates in the current period.

#### **Earnings before interest, tax, depreciation, amortisation and impairment from continuing operations (EBITDA)**

EBITDA from continuing operations for the half-year ended 31 December 2016 was a loss of \$5.4m. This comprises a loss from continuing operations of \$4.7m adjusted for net interest income of \$0.7m and depreciation and amortisation of \$0.01m.

#### **Continuing Operations - Silex Systems**

The loss from continuing operations increased by \$4.3m to \$4.7m compared to the previous corresponding period. Revenue reduced by \$0.1m which was due to the \$0.1m reduction in Interest income. Other income reduced by \$0.6m compared to the previous corresponding period. This was due to a reduction of \$0.6m in Research and development tax incentive income. Total expenses increased by \$3.6m. This was mainly due to the \$3.1m Development expenditure relating to reimbursing GEH (\$nil in the previous corresponding period). In addition, Employee benefits expense increased by \$0.4m largely as a result of an increased focus on the continuing operations (including the restructure work in relation to GLE) as opposed to the discontinued operations.

#### **Discontinued Operations – Solar Systems and Translucent**

The Silex Board announced the cessation of the Solar Systems business operation on 30 July 2015. Various property, plant and equipment and technology assets were sold to third parties with total proceeds of \$2.8m received, of which \$0.5m was received during the half-year ended 31 December 2016. All (held for sale) assets of the Solar Systems business have now been sold.

As a result of the exclusive License and Assignment Agreement for Translucent's proprietary cREO™ technology that was signed on the 15 September 2015, the technology was transferred to IQE Plc's operation in Greensboro, North Carolina. IQE is responsible for the completion of product development and commercialisation activities. The Translucent operations in Palo Alto, California ceased at the end of December 2015.

The profit from discontinued operations of \$0.1m in the current period compared to a loss of \$0.6m in the previous corresponding period reflects the cessation of activities for Solar Systems and Translucent. The profit in the current period was mainly due to a \$0.1m profit on sale of assets.

#### **Explanation of the net loss from ordinary activities after tax attributable to members**

The net loss from ordinary activities of \$4.6m increased by \$3.6m compared to the prior corresponding period. The net loss is comprised of the loss from continuing operations attributable to members of \$4.7m (an increase of \$4.3m) and the profit from discontinued operations of \$0.1m attributable to members (an improvement of \$0.7m compared to the prior corresponding period). Meanwhile, investment in technical and commercialisation activities for the SILEX technology continues.

#### **Explanation of dividends**

No dividends have been paid or proposed during the reporting period.

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016, the full financial report for the year ending 30 June 2016 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Silex Systems Limited 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 half-year ended 31 December 2016.

### 1. Directors

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

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

### 2. Dividend

No dividend payment has been recommended or declared by the Board.

### 3. Review of operations and activities

The Consolidated income statement on page 9 of this report sets out the main revenue and expense items for the half-year ended 31 December 2016 with comparatives for the half-year ended 31 December 2015. A summary is shown below:

	6 months ended 31 December 2016	6 months ended 31 December 2015
	\$	\$
Revenue from continuing operations	727,121	825,063
(Loss) before tax	(4,675,637)	(406,846)
Income tax expense	-	-
Net (loss) from continuing operations	(4,675,637)	(406,846)
Net profit/(loss) from discontinued operations	91,095	(610,977)
Net (loss) for the half-year	(4,584,542)	(1,017,823)
(Loss) is attributable to: Owners of Silex Systems Limited	(4,584,542)	(1,017,823)

Overall, the Company incurred a loss attributable to owners of Silex Systems Limited for the half-year ended 31 December 2016 of \$4.6m (loss of \$1.0m for the previous corresponding period).

The result for the half-year period was impacted by:

- Revenue and Other Income from continuing operations reduced by \$0.7m. Research & Development (R&D) Tax Incentive income decreased by \$0.6m. Interest income reduced by \$0.1 million as average cash/held to maturity investment balances reduced. There was also a reduction in interest rates on the invested funds.
- Expenses from continuing operations increased by \$3.6m. This was mainly due to \$3.1m of Development expenditure relating to reimbursing GEH (\$nil in the previous corresponding period). In addition, Employee benefits expense increased by \$0.4m largely as a result of an increased focus on the continuing operations (including the restructure work in relation to GLE) as opposed to the discontinued operations.
- The result from discontinued operations improved from a \$0.6m loss in the previous corresponding period to a profit of \$0.1m in the current period. The profit in the current period was mainly due to a \$0.1m profit on sale of assets.

The total cash balance (including held to maturity investments) as at 31 December 2016 was \$47.0m. Net cash outflows from operating activities for the current period were \$4.7m compared to \$6.7m in the prior corresponding period. This improvement was mainly due to a \$2.4m reduction in payments to suppliers and employees in the current half-year. Reduced payments as a result of the Company's own restructure activities undertaken more than offset the \$2.2m paid to GEH. Sale proceeds of \$0.5m were also received during the half-year from the sale of various plant and equipment and intangibles from the discontinued operations.

The value of Available-for-sale financial assets (shares in IQE Plc) increased by \$1.7m during the half-year as the IQE share price increased significantly.

#### 4. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 8.

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

Dr M P Goldsworthy  
Managing Director

Dr L M McIntyre  
Director

Sydney, 27 February 2017



## Auditor's Independence Declaration

As lead auditor for the review of Silex Systems Limited for the half year ended 31 December 2016, 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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

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

David Ronald  
Partner  
PricewaterhouseCoopers

Sydney  
27 February 2017

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Silex Systems Limited  
Consolidated income statement  
for the half-year ended 31 December 2016

	Note	6 months ended 31 December 2016 \$	6 months ended 31 December 2015 \$
<b>Revenue from continuing operations</b>		727,121	825,063
Other income		455,100	1,039,633
Research and development materials		(46,960)	(16,306)
Development expenditure		(3,136,425)	-
Finance costs		(9)	(17)
Depreciation and amortisation expense		(12,682)	(16,978)
Employee benefits expense		(1,846,354)	(1,455,313)
Consultants and professional fees		(375,677)	(262,196)
Printing, postage, freight, stationery and communications		(47,490)	(61,053)
Rent, utilities and property outgoings		(201,007)	(223,104)
Net foreign exchange losses		(2,832)	(10,184)
Other expenses from ordinary activities		(188,422)	(226,391)
<b>(Loss) before income tax expense</b>		<b>(4,675,637)</b>	<b>(406,846)</b>
Income tax expense		-	-
<b>Net (loss) from continuing operations</b>		<b>(4,675,637)</b>	<b>(406,846)</b>
<b>Net profit(loss) from discontinued operations</b>	4	<b>91,095</b>	<b>(610,977)</b>
<b>Net (loss) for the half-year</b>		<b>(4,584,542)</b>	<b>(1,017,823)</b>
(Loss) is attributable to:			
Owners of Silex Systems Limited		(4,584,542)	(1,017,823)
		Cents	Cents
<b>Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company</b>			
Basic earnings per share		(2.7)	(0.2)
Diluted earnings per share		(2.7)	(0.2)
<b>Earnings per share for (loss) attributable to the ordinary equity holders of the company</b>			
Basic earnings per share		(2.7)	(0.6)
Diluted earnings per share		(2.7)	(0.6)

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

Silex Systems Limited  
Consolidated statement of comprehensive income  
for the half-year ended 31 December 2016

	<b>6 months ended 31 December 2016 \$</b>	<b>6 months ended 31 December 2015 \$</b>
<b>Net (loss) for the half-year</b>	<b>(4,584,542)</b>	<b>(1,017,823)</b>
<b>Other comprehensive income</b>		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	1,630,857	-
Exchange differences on translation of foreign operations	72,506	(44,835)
<b>Other comprehensive income for the half-year, net of tax</b>	<b>1,703,363</b>	<b>(44,835)</b>
<b>Total comprehensive income for the half-year</b>	<b>(2,881,179)</b>	<b>(1,062,658)</b>
Attributable to:		
Owners of Silex Systems Limited	(2,881,179)	(1,062,658)
<b>Total comprehensive income for the half-year</b>	<b>(2,881,179)</b>	<b>(1,062,658)</b>
Total comprehensive income for the period attributable to owners of Silex Systems Limited arises from:		
Continuing operations	(4,675,637)	(406,846)
Discontinued operations	1,794,458	(655,812)
	<b>(2,881,179)</b>	<b>(1,062,658)</b>

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

Silex Systems Limited  
Consolidated balance sheet  
as at 31 December 2016

	Note	31 December 2016	30 June 2016
		\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,195,566	1,581,746
Held to maturity investments - term deposits		43,800,328	49,700,328
Trade and other receivables	2	3,719,356	3,466,276
		<u>50,715,250</u>	<u>54,748,350</u>
Assets classified as held for sale	4	-	350,000
<b>Total current assets</b>		<u>50,715,250</u>	<u>55,098,350</u>
<b>Non-current assets</b>			
Available-for-sale financial assets		3,304,803	1,624,251
Property, plant and equipment		81,836	80,001
Deferred tax assets		1,390	1,796
<b>Total non-current assets</b>		<u>3,388,029</u>	<u>1,706,048</u>
<b>Total assets</b>		<u>54,103,279</u>	<u>56,804,398</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		2,444,957	1,799,049
Provisions		469,778	472,837
		<u>2,914,735</u>	<u>2,271,886</u>
Liabilities associated with discontinued operations	4	205,004	678,379
<b>Total current liabilities</b>		<u>3,119,739</u>	<u>2,950,265</u>
<b>Non-current liabilities</b>			
Provisions		115,720	104,728
<b>Total non-current liabilities</b>		<u>115,720</u>	<u>104,728</u>
<b>Total liabilities</b>		<u>3,235,459</u>	<u>3,054,993</u>
<b>Net assets</b>		<u>50,867,820</u>	<u>53,749,405</u>
<b>EQUITY</b>			
Contributed equity	3	231,751,764	231,752,170
Reserves		11,692,859	9,989,496
Accumulated losses		(192,576,803)	(187,992,261)
<b>Total equity</b>		<u>50,867,820</u>	<u>53,749,405</u>

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

Silex Systems Limited  
Consolidated statement of changes in equity  
for the half-year ended 31 December 2016

	Attributable to owners of Silex Systems Limited			
	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
<b>Balance at 30 June 2015</b>	<b>231,753,076</b>	<b>10,296,433</b>	<b>(184,595,373)</b>	<b>57,454,136</b>
Net (loss) for the half-year	-	-	(1,017,823)	(1,017,823)
Other comprehensive income	-	(44,835)	-	(44,835)
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>(44,835)</b>	<b>(1,017,823)</b>	<b>(1,062,658)</b>
<b>Transactions with owners in their capacity as owners</b>				
Employee shares and options - value of employee services	-	13,923	-	13,923
Deferred tax recognised directly in equity	(453)	-	-	(453)
	(453)	13,923	-	13,470
<b>Balance at 31 December 2015</b>	<b>231,752,623</b>	<b>10,265,521</b>	<b>(185,613,196)</b>	<b>56,404,948</b>
<b>Balance at 30 June 2016</b>	<b>231,752,170</b>	<b>9,989,496</b>	<b>(187,992,261)</b>	<b>53,749,405</b>
Net (loss) for the half-year	-	-	(4,584,542)	(4,584,542)
Other comprehensive income	-	1,703,363	-	1,703,363
<b>Total comprehensive income for the half-year</b>	<b>-</b>	<b>1,703,363</b>	<b>(4,584,542)</b>	<b>(2,881,179)</b>
<b>Transactions with owners in their capacity as owners</b>				
Deferred tax recognised directly in equity	(406)	-	-	(406)
	(406)	-	-	(406)
<b>Balance at 31 December 2016</b>	<b>231,751,764</b>	<b>11,692,859</b>	<b>(192,576,803)</b>	<b>50,867,820</b>

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

Silex Systems Limited  
Consolidated cash flow statement  
for the half-year ended 31 December 2016

	6 months ended 31 December 2016 \$	6 months ended 31 December 2015 \$
<b>Cash flows from operating activities</b>		
Receipts from customers and government grants (inclusive of GST)	146,690	119,518
Payments to suppliers and employees (inclusive of GST)	(5,808,806)	(8,191,836)
Interest received	918,508	1,370,235
Interest paid	(9)	(29)
<b>Net cash (outflows) from operating activities</b>	<b>(4,743,617)</b>	<b>(6,702,112)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant and equipment	(7,754)	-
Proceeds from sale of property, plant and equipment	289,100	2,586,838
Proceeds from sale of intangible assets	175,000	-
Proceeds from maturity of held to maturity assets - term deposits	5,900,000	6,638,485
<b>Net cash inflows from investing activities</b>	<b>6,356,346</b>	<b>9,225,323</b>
<b>Cash flows from financing activities</b>		
<b>Net cash (outflows) from financing activities</b>	<b>-</b>	<b>-</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,612,729</b>	<b>2,523,211</b>
Cash and cash equivalents at the beginning of the half-year	1,581,746	987,777
Effects of exchange rate changes on cash	1,091	3,575
<b>Cash and cash equivalents at end of half-year *</b>	<b>3,195,566</b>	<b>3,514,563</b>
*Held to maturity investments excluded from Cash and cash equivalents	43,800,328	47,534,966

*The above consolidated cash flow statement should be read in conjunction with the accompanying notes.*

**Note 1 Segment information**

**(a) Description of segments**

Following the restructure of the Company and focus on its core activity, the Company now has only one reportable segment, being Silex Systems. Solar Systems and Translucent have been disclosed as discontinued operations and not as reportable segments. Information about these discontinued operations is provided in note 4.

**(b) Segment information provided to the board of directors**

Segment revenue and segment result information provided to the board of directors for the Silex segment, the one reportable segment, for the half-year ended 31 December 2016 is contained in the consolidated income statement.

The board of directors assesses the performance of the operating segment based on a result that excludes exchange gains and losses on intercompany loans which eliminate on consolidation. The segment result reconciles to the Net (loss) from continuing operations.

Silex segment assets were \$50,626,163 at 31 December 2016 compared to \$54,594,394 at 30 June 2016. Silex segment liabilities were \$3,030,455 at 31 December 2016 compared to \$2,376,614 at 30 June 2016.

Assets which eliminate on consolidation such as investments in controlled entities and intercompany receivables are excluded from segment assets. Deferred tax assets are also excluded from segment assets.

	31 December 2016 \$	30 June 2016 \$
<b>Note 2 Trade and other receivables</b>		
Trade debtors	45,431	97,561
Other receivables	19,256	72,282
Accrued income	3,479,760	3,172,395
Prepayments	174,909	124,038
	3,719,356	3,466,276

	31/12/2016 Shares	30/06/2016 Shares	31/12/2016 \$	30/06/2016 \$
<b>Note 3 Contributed equity</b>				
<b>(a) Share capital</b>				
Ordinary shares, fully paid	170,467,339	170,467,339	231,751,764	231,752,170

**(b) Movements in ordinary share capital**

Date	Details	Number of shares	Issue Price \$	\$
30/06/2016	Opening balance	170,467,339		231,752,170
	Deferred tax recognised directly in equity			(406)
31/12/2016	Closing balance	170,467,339		231,751,764

Silex Systems Limited  
Notes to the consolidated financial statements  
31 December 2016 (continued)

**Note 4 Discontinued operations and Assets held for sale**

In accordance with the Company's major strategic review and resulting restructure, the Solar Systems and Translucent businesses have been disclosed as discontinued operations.

On 30 July 2015, Silex announced a decision had been made to cease business operations at Solar Systems. During the half-year ended 31 December 2016, the last of the assets held for sale were sold. On 15 September 2015, Silex announced that Translucent had signed a License and Assignment Agreement with IQE Plc with the technology commercialisation program to be transferred to IQE.

A summary of the results of the discontinued operations is provided below:

	6 months ended 31 December 2016 \$	6 months Ended 31 December 2015 \$
Revenue	230,947	1,738,165
Other income	154,000	1,992,016
Expenses	(293,852)	(4,341,158)
Profit/(loss) before tax	91,095	(610,977)
Income tax expense	-	-
Profit/(loss) after income tax of the discontinued operations	91,095	(610,977)

	6 months ended 31 December 2016 \$	6 months Ended 31 December 2015 \$
Net cash (outflows) from operating activities	(381,726)	(5,518,492)
Net cash inflows from investing activities	464,000	2,818,852
Net cash inflows/(outflows) from the discontinued operations	82,274	(2,699,640)

	31 December 2016 \$	30 June 2016 \$
Property, plant and equipment	-	175,000
Intangible assets	-	175,000
<b>Total assets of disposal group held for sale</b>	-	350,000

	31 December 2016 \$	30 June 2016 \$
Trade and other payables	(55,710)	(303,819)
Provisions	(149,294)	(374,560)
<b>Total liabilities associated with discontinued operations</b>	(205,004)	(678,379)

**Note 5 Events occurring after reporting date**

On 3 January 2017, Silex announced that it had extended the Term Sheet with GEH through to 31 March 2017 to allow the parties additional time to work towards a mutually acceptable restructure of GLE. Pursuant to the extension, Silex will continue to lead the process to attract new investors for GLE, and will continue to contribute GEH's 76% of the funding of GLE's Wilmington operations (refer note 6). Under the extension, Silex is required to reimburse GEH a further US\$1,175,000 for expenditure for the 3 months to 31 March 2017.

Between 31 December 2016 and the date of this report, the IQE Plc share price (LON: IQE) has increased considerably. Combined with movements in exchange rates, the value of the shares (disclosed as Available-for-sale financial assets) has increased by over \$550,000 since 31 December 2016. Gains or losses arising from changes in the fair value of shares classified as available-for-sale are recognised in other comprehensive income. The financial effects of the movements in fair value since 31 December 2016 will be recognised in the financial statements for the year ended 30 June 2017.

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 the Operational Update released to the ASX at the same time as this document.

**Note 6 Contingent assets and liabilities**

In April 2016, Silex signed a Non-Binding Purchase and Sale Agreement (PSA) Term Sheet with GENE Holdings (GENE), GE-Hitachi Nuclear Energy Americas LLC (GEHA) and General Electric Company (GE). In early January 2017, the Term Sheet was extended to 31 March 2017. The Term Sheet and extension provides terms of a proposed Purchase and Sale Agreement (PSA) whereby Silex may acquire the shares owned by GENE and GEHA together representing 76% of the issued capital of GE-Hitachi Global Laser Enrichment LLC (GLE). Silex has the exclusive right to assign its right to acquire GEH's 76% equity stake in GLE in full or in part to new investors.

Whilst the Term Sheet and extension is principally Non-Binding, there are certain Binding Obligations. Silex has a Binding Funding Obligation and is required to make certain reimbursement payments to the Sellers (GENE and GEHA). Expenses recorded in the current half-year amounted to \$3,136,425.

In addition, if a PSA is signed, then Silex and any of its assignees are required to make additional funding payments to GENE and GEHA (collectively GEH). As per the Term Sheet signed in April 2016, in the event Silex elects to purchase the full 76% of GEH equity that is available for the sale, the maximum amount of additional funding payable by Silex (a contingent liability) is US\$1,000,000 for the 12 months to 31 December 2016 (US\$500,000 for the period to 30 June 2016 and a further US\$500,000 for the 6 months ended 31 December 2016), if a PSA is executed. The extension of the Term Sheet may result in an additional contingent liability of US\$125,000 (covering the 3 months ended 31 March 2017). At the current point in time, the timing of any outflow of funds is uncertain and subject to Silex signing a PSA and either fully or partially assigning its rights under the Term Sheet to new investors.

The consolidated entity is not aware of any contingent assets. This situation has not changed since the last annual reporting date.

**Note 7 Net tangible asset backing**

	31 December 2016	30 June 2016
Net tangible asset backing per ordinary share	29.8 cents	31.4 cents

**Note 8 Fair value measurement**

**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. The Board monitors the Company's hedging strategy on a continuing basis. At 31 December 2016, the Company held forward exchange contracts totalling US\$825,000 to purchase USD with contractual maturity dates up to January 2017 as part of its strategy to minimise the financial effects of foreign currency fluctuations. The fair value of derivative contracts outstanding at 31 December 2016 totals \$1,257 and is recorded in Current assets – trade and other receivables. At 30 June 2016, the Company held forward exchange contracts totalling US\$3,975,000 to purchase USD with contractual maturity dates up to January 2017. The fair value of derivative contracts outstanding at 30 June 2016 totalled \$157,909 and was recorded in Current liabilities – trade and other payables.

**Note 9 Basis of preparation of the half-year financial report**

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2016 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016, the full financial report for the year ended 30 June 2016 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period except as set out below.

**New standards and interpretations not yet adopted**

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

*AASB 9 Financial Instruments*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities and introduces new rules for hedge accounting and a new impairment model for financial assets. The Company expects no impact from the new classification, measurement and derecognition rules on the Company's financial assets and liabilities. The new hedge rules, as a general rule, will make it easier to apply hedge accounting going forward as the standard applies a more principles-based approach. The new standard also introduces expanded disclosure requirements and changes in presentation. The Company has not yet assessed how its own hedging arrangements and impairment provisions would be affected by the new rules. The new rules must be applied for financial years commencing on or after 1 January 2018.

*AASB 15 Revenue from Contracts with Customers*

The new standard is based on the principal that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. Management is currently assessing the impact of the new rules and is not able to estimate the impact of the new rules on the Company's financial statements. The new standard is mandatory for financial years commencing on or after 1 January 2018.

#### AASB 16 Leases

AASB 16 was issued in February 2016. It 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 (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 standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of \$296,000. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

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

#### **Forward Looking Statements and Business Risks:**

*Silex Systems 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, licensed exclusively to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA, is currently in the engineering development stage and plans for commercial deployment remain subject to engineering and market risks. Silex also has an interest in a unique semiconductor technology known as 'cREO™' through its ownership of subsidiary Translucent Inc. The cREO™ technology is exclusively licensed to IQE Plc based in the UK. IQE is progressing the cREO™ technology towards commercial deployment in various advanced semiconductor products. The outcome of IQE's commercialisation program also remains subject to technology and market risks.*

*The commercial potential of these two technologies is currently unknown. Accordingly, the statements in this announcement 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.*

*Some risk factors that could affect future results and commercial prospects include, but are not limited to: the outcome of the GLE restructure currently underway; results from the SILEX uranium enrichment engineering development program being conducted jointly by the Company and GLE; the demand for natural uranium and enriched uranium; the time taken to develop the SILEX technology; results from IQE's commercialisation program and the demand for cREO™ products; the potential development of competing technologies; the potential for third party claims against the Company's ownership of Intellectual Property; the potential impact of government regulations or policies in the USA, Australia or elsewhere; and the outcomes of various commercialisation strategies undertaken by the Company and/or its Licensees GLE and IQE.*

In the directors' opinion:

(a) the financial statements and notes set out on pages 9 to 18 are in accordance with the *Corporations Act 2001*, including:

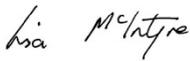
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date: and

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

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



Dr M P Goldsworthy  
Managing Director



Dr L M McIntyre  
Director

Sydney  
27 February 2017



## Independent auditor's review report to the members of Silex Systems Limited

### *Report on the Half-Year Financial Report*

We have reviewed the accompanying half-year financial report of Silex Systems Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Silex Systems Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

### *Directors' responsibility for the half-year financial report*

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

### *Auditor's responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Silex Systems Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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## Independent auditor's review report to the members of Silex Systems Limited (continued)

### *Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Silex Systems Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

*PricewaterhouseCoopers*

PricewaterhouseCoopers

*David Ronald*

David Ronald  
Partner

Sydney  
27 February 2017