

Silex Systems Limited

ABN 69 003 372 067

ASX Preliminary final report year ended 30 June 2016 Appendix 4E

Lodged with the ASX under Listing Rule 4.3A

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Silex Systems Limited
year ended 30 June 2016
(previous corresponding period:
year ended 30 June 2015)

Results for announcement to the market

	2016 \$	2015 \$	Movement \$	Movement %	
Cash and cash equivalents & Held to maturity investments	51,282,074	55,161,228	(3,879,154)	7.0%	↓
Revenue from continuing operations	1,617,655	3,674,860	(2,057,205)	56.0%	↓
Revenue from discontinued operations	2,153,951	183,013	1,970,938	1,076.9%	↑
Revenue from ordinary activities	3,771,606	3,857,873	(86,267)	2.2%	↓
Earnings before interest, tax, depreciation, and amortisation from continuing operations (EBITDA)	(6,291,168)	(4,405,917)	(1,885,251)	42.8%	↑
Net (loss) from continuing operations attributable to members	(4,700,759)	(2,284,993)	(2,415,766)	105.7%	↑
Net profit/(loss) from discontinued operations attributable to members	1,303,871	(33,659,803)	34,963,674	N/A	
Net (loss) from ordinary activities after tax attributable to members	(3,396,888)	(35,944,796)	32,547,908	90.5%	↓
Net (loss) for the period attributable to members	(3,396,888)	(35,944,796)	32,547,908	90.5%	↓
No dividends have been paid or proposed during the period					

Overview

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 during the 1990's and 2000's. The SILEX technology was licensed exclusively to GE-Hitachi Global Laser Enrichment LLC (GLE) in the USA in 2006, and is currently in the final phase of a commercialisation program involving engineering scale-up and economic validation. The pace of this commercialisation program was slowed significantly by GLE in July 2014 in line with continued adverse conditions in the nuclear fuel markets.

In June 2014, Silex announced a major restructure which aimed to return the Company's focus solely on the SILEX laser enrichment technology. The restructure has been completed and resulted in the exclusive licensing of Translucent's unique semiconductor technology known as 'cREO™' to IQE Plc based in the UK. IQE is progressing the cREO™ technology towards commercial deployment in various advanced semiconductor markets. Under the terms of the License and Assignment Agreement signed in September 2015, IQE has 30 months in which to elect to acquire Translucent's technology. Translucent ceased its Californian operation in December 2015 following the successful transfer of the technology and commercialisation program to IQE.

Our subsidiary Solar Systems Pty Ltd also ceased operations during FY2016 with \$2.3m being received for the sale of property, plant and equipment.

These financial statements primarily reflect the ongoing support of operations associated with the commercialisation of the SILEX laser uranium enrichment technology.

Results for announcement to the market (continued)

The SILEX Technology Commercialisation Program

The Company's primary focus in FY2016 was on the continued development and commercialisation of our core asset – the SILEX technology, and the restructure of our Licensee GLE. As announced to the ASX on 18 April 2016, GE-Hitachi Nuclear Energy (GEH) is looking to exit GLE, due to changes in business priorities and the continuing difficult market conditions. Silex subsequently successfully negotiated and executed a term sheet with GEH securing an exclusive option to acquire GEH's 76% interest in GLE, and the right to assign in part or in whole the acquisition terms to third parties. Accordingly, in recent months Silex has taken the lead on the search for new investors for GLE, with a preference for securing high calibre strategic investors who are capable of supporting GLE's transition to market with the SILEX technology. Discussions continue with a number of interested parties.

Under the term sheet signed with GEH, Silex agreed to reimburse GEH its pro-rata share of funding for the Wilmington operation for CY2016. This is in addition to Silex funding the development of commercial-scale laser systems at its Lucas Heights facility in Sydney. GLE shareholder, Cameco, 24% owner of GLE, remains supportive of Silex's efforts to restructure GLE.

Meanwhile, the technology engineering and economic validation program has continued to achieve pleasing results during FY2016 with program milestones achieved at both the Wilmington and Sydney project sites. Activities in the Test Loop facility in Wilmington, North Carolina (NC) resulted in the successful demonstration of key process efficiency improvements which should translate into lower operating and capital costs. Ongoing laser system development activities in Sydney resulted in the initial demonstration of a prototype commercial-scale plant laser system during the year.

Challenging market conditions continued to plague the nuclear fuel markets throughout FY2016. This was not unexpected given the continued slow pace of the restart of the Japanese nuclear reactor fleet following the Fukushima disaster in 2011 and the announcement of the premature retirement of a number of reactors in the US and Europe. As a result, demand for enrichment and uranium remains low and prices are currently depressed. However, we continue to believe that the outlook for the nuclear industry in the long term is positive and this is evidenced by the start-up of 10 new reactor units in the past year bringing the total of number of operable reactors to 445. With an additional 61 reactors under construction and 170 planned – the demand and supply fundamentals of nuclear fuel markets are expected to recover in the coming years.

Silex believes that GLE is the best vehicle to take the SILEX technology to market, based on the preservation of several key assets which will underpin GLE's value going forward. These assets include:

- the highly skilled and specialised engineering team based in Wilmington (in addition to the highly talented laser development team in Sydney);
- the Test Loop demonstration facility that has operated since 2010 and continues to advance the technology towards full-scale demonstration;
- the Paducah commercial opportunity (to produce natural grade uranium from tails stockpiles owned by the US Department of Energy); and
- the combined construction and operating license (COL) granted by the US Nuclear Regulatory Commission in 2012 for a potential commercial enrichment plant in Wilmington, NC.

We remain convinced that the best way to create value for our shareholders is to continue to focus our efforts on the restructure of GLE and to potentially take an equity interest in GLE ourselves such that we can have greater visibility and influence over the technology commercialisation program going forward.

This Preliminary final report should be read together with the Operational Update released in conjunction with this report and recent ASX announcements.

Commentary on the results for the period

Cash and cash equivalents & Held to maturity investments

Our cash balance as at 30 June 2016 was \$51.3m, a net decrease of \$3.9m during the year, primarily resulting from the finalisation of our own restructuring activities and the increased cash commitment for the SILEX laser uranium enrichment technology in Sydney and in Wilmington, in support of the GLE restructure.

Following the execution of a term sheet with GEH on 29 April 2016, Silex commenced reimbursing GEH for their pro-rata share of CY2016 GLE funding. \$1.9m has been reimbursed to 30 June 2016. This investment was offset by R&D tax incentive cash receipts of \$5.1m during the year. The decrease of \$9.0m in Receipts from customers and government grants was primarily due to a reduction of \$6.4m in R&D tax incentive receipts and a reduction of \$2.3m in recoverable project cost receipts from GLE. The decrease in payments to suppliers and employees of \$10.9m reflected the lower operating cost structure of the Company following the restructure of the Group.

Revenue from ordinary activities

Revenue from recoverable projects costs on the Uranium Enrichment Project reduced by \$1.5m, whilst Interest income reduced by \$0.6m. As previously announced, GLE discontinued funding of Silex's Lucas Heights project costs during the previous financial year. These reductions were largely offset by \$2.0m in Licence fees and Recoverable project costs in the current period resulting from the License agreement for the Translucent technology signed with IQE in September 2015.

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

EBITDA from continuing operations in FY2016 was a loss of \$6.3m. This comprises the loss from continuing operations of \$4.7m adjusted for net interest income of \$1.6m and depreciation and amortisation of \$0.03m.

Continuing Operations - Silex Systems

The Silex Systems segment result was a \$4.7m loss in the current year compared to a \$2.3m loss in the prior year. The increased loss was largely due to a reduction of \$1.5m in Recoverable projects costs revenue on the Uranium Enrichment Project as mentioned above. Interest income also decreased to \$1.6m in the current year compared to \$2.2m in the prior year as a result of lower interest rates and lower average cash / term deposit holdings in the current year.

There was an increase in expenses from continuing operations of \$1.8m compared to the prior year. This was mainly due to \$2.6m of Development expenditure in the current year relating to Silex's reimbursement of GEH's pro-rata share of funding for the Wilmington operations. This was offset by a reduction in other expenses of \$0.8m as a result of the Company's lower operating cost structure. In addition, there was a \$1.4m increase in Other income which was mainly due to \$1.5m for the R&D tax incentive for Silex's Lucas Heights 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 have been sold to third parties with \$2.3m received during the current year. At the time of writing, all remaining assets of the Solar Systems business have 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 during the year. IQE will now be 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 was \$1.3m in the current year compared to a loss of \$33.7m loss in the prior year. The current year included \$1.8m License Fee income from IQE compared to \$nil in the prior year. Reversals of impairment of property, plant and equipment (\$0.2m) and intangibles (\$0.2m) improved the result in the current year compared to Impairments of \$8.9m and \$10.4m for property, plant and equipment, and intangibles respectively in the previous year.

Commentary on the results for the period (continued)

Net loss from ordinary activities after tax attributable to members

The net loss from ordinary activities was \$3.4m compared to \$35.9m in the prior year. The net loss is comprised of the loss from continuing operations attributable to members of \$4.7m (an increase of \$2.4m compared to the prior year) and the profit from discontinued operations of \$1.3m attributable to members (compared to a loss of \$33.7m in the prior year). The increase in loss from continuing operations is mainly due to the Development expenditure in the current year as mentioned above.

The net profit from discontinued operations, includes the operations of Solar Systems and Translucent. As outlined above, impairment of the carrying value of property, plant and equipment, and intangibles of \$19.3m held by Solar Systems and Translucent combined, impacted the prior year result. In addition, the prior year result included the anticipated costs associated with the dismantling and decommissioning of various facilities, further write downs of inventory holdings and employee termination payments made during the year.

Earnings per share from continuing operations

Basic earnings per share and diluted earnings per share from continuing operations were both (2.8) cents in the current year, compared to (1.3) cents in the prior year. The movement in negative earnings per share compared to the prior year reflects the increased loss from continuing operations as discussed above.

Earnings per share

Basic earnings per share and diluted earnings per share were both (2.0) cents in the current year, compared to (21.1) cents in the prior year. The movement was largely due to the improved result from discontinued operations in the current year explained above.

Other factors that affected results in the period or which are likely to affect results in the future

The path to commercialisation for the SILEX laser uranium enrichment technology continues to be affected by the slowdown in the nuclear industry primarily as a result of the Fukushima event and the shutdown of the Japanese nuclear power plant fleet in 2011. In addition, the announcement by GLE shareholder GE-Hitachi (GEH) to exit the enterprise and the subsequent signing of a term sheet between Silex and GEH for the acquisition of GEH's 76% equity interest in GLE, has led to an extensive program by Silex to secure new strategic investors for GLE. Furthermore, Silex is obligated under the term sheet to reimburse GEH for their pro-rata share of funding for the Wilmington operation until such time and extent that new investors are secured for GLE. This funding is in addition to the continued funding of a small team of scientists and engineers in the Company's Sydney facility, to continue the development of commercial-scale laser systems for a SILEX enrichment plant. The latter effort will ensure our core competency is maintained in the technology while providing an increasing level of assistance to GLE in the commercialisation of the SILEX technology.

In light of the above, the timing of future potential milestone payments and royalties under the Technology Commercialisation and License Agreement signed with GLE may be significantly delayed by several factors, including the slowdown in the pace of GLE's commercialisation program announced in July 2014, the outcome of the restructure of GLE currently being undertaken by Silex as a result of GEH's decision to exit GLE, and the timing of any market recovery for uranium and enrichment services.

The implementation of the Company's major strategic review announced on 30 June 2014 involved decisions in the prior and current year to cease the Solar Systems operations in Victoria and the Translucent operations in California. As a result, the Solar Systems and Translucent facilities were decommissioned and closed during the year. An exclusive License and Assignment Agreement for Translucent's technology was signed in September 2015 with UK-based IQE Plc (IQE), meaning that the completion of product development and commercialisation activities will be undertaken by IQE. IQE is progressing the cREO™ technology towards commercial deployment in various advanced semiconductor products. The outcome of IQE's commercialisation program remains high risk.

Further information on factors that have affected results in the period or which are likely to affect results in the future, including a number of potential factors and events that may improve market prospects for the nuclear industry, are discussed in the Operational Update which will be released to the ASX at the same time as this document.

Silex Systems Limited
year ended 30 June 2016
(previous corresponding period:
year ended 30 June 2015)

Commentary on the results for the period (continued)

Compliance and Audit

This report has been prepared in accordance with AASB Standards, Interpretations issued by the Australian Accounting Standards Board or other standards acceptable to the ASX. This report and the accounts upon which the report is based use the same accounting policies. This report gives a true and fair view of the matters disclosed. This report is based on accounts which are in the process of being audited. The entity has a formally constituted Audit Committee.



Dr Michael Goldsworthy
22 August 2016

Silex Systems Limited
Preliminary consolidated income statement
for the year ended 30 June 2016

	Note	2016 \$	2015 \$
Revenue from continuing operations	2	1,617,655	3,674,860
Other income	3	1,467,828	42,475
Research and development materials		(60,107)	(154,296)
Development expenditure	12	(2,550,261)	-
Finance costs	4	(55)	(349)
Depreciation and amortisation expense	4	(27,191)	(59,821)
Employee benefits expense		(3,091,636)	(4,017,953)
Consultants and professional fees		(951,041)	(642,304)
Printing, postage, freight, stationery and communications		(99,574)	(117,893)
Rent, utilities and property outgoings		(433,766)	(474,107)
Net foreign exchange losses		(143,418)	-
Other expenses from continuing activities		(429,193)	(535,605)
(Loss) before income tax expense		(4,700,759)	(2,284,993)
Income tax expense	5	-	-
Net (loss) from continuing operations		(4,700,759)	(2,284,993)
Net profit/(loss) from discontinued operations	11	1,303,871	(33,659,803)
Net (loss) for the year		(3,396,888)	(35,944,796)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(3,396,888)	(35,944,796)
		(3,396,888)	(35,944,796)

	Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	(2.8)	(1.3)
Diluted earnings per share	(2.8)	(1.3)

Earnings per share for (loss) attributable to the ordinary equity holders of the company		
Basic earnings per share	(2.0)	(21.1)
Diluted earnings per share	(2.0)	(21.1)

The above preliminary consolidated income statement should be read in conjunction with the accompanying notes, the 2015 Annual Report, the full financial report for the year ended 30 June 2015 and all ASX announcements.

Silex Systems Limited
Preliminary consolidated statement of comprehensive income
for the year ended 30 June 2016

	2016 \$	2015 \$
Net (loss) for the year	(3,396,888)	(35,944,796)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	(283,451)	-
Exchange differences on translation of foreign operations	(51,181)	275,747
Other comprehensive income for the year, net of tax	(334,632)	275,747
Total comprehensive income for the year	(3,731,520)	(35,669,049)
Attributable to:		
Owners of Silex Systems Limited	(3,731,520)	(35,669,049)
Total comprehensive income for the year	(3,731,520)	(35,669,049)
Total comprehensive income for the period attributable to owners of Silex Systems Limited arises from:		
Continuing operations	(4,700,759)	(2,284,993)
Discontinued operations	969,239	(33,384,056)
	(3,731,520)	(35,669,049)

The above preliminary consolidated statement of comprehensive income should be read in conjunction with the accompanying notes, the 2015 Annual Report, the full financial report for the year ended 30 June 2015 and all ASX announcements.

Silex Systems Limited
Preliminary consolidated balance sheet
as at 30 June 2016

	Note	30 June 2016 \$	30 June 2015 \$
ASSETS			
Current assets			
Cash and cash equivalents		1,581,746	987,777
Held to maturity investments - term deposits		49,700,328	54,173,451
Trade and other receivables		3,466,276	5,214,694
		<u>54,748,350</u>	<u>60,375,922</u>
Assets classified as held for sale	11	350,000	1,575,487
Total current assets		<u>55,098,350</u>	<u>61,951,409</u>
Non-current assets			
Available-for-sale financial assets		1,624,251	-
Property, plant and equipment		80,001	64,061
Deferred tax assets		1,796	2,702
Intangible assets		-	688
Total non-current assets		<u>1,706,048</u>	<u>67,451</u>
Total assets		<u>56,804,398</u>	<u>62,018,860</u>
LIABILITIES			
Current liabilities			
Trade and other payables		1,799,049	968,673
Provisions		472,837	425,919
		<u>2,271,886</u>	<u>1,394,592</u>
Liabilities associated with discontinued operations	11	678,379	3,057,022
Total current liabilities		<u>2,950,265</u>	<u>4,451,614</u>
Non-current liabilities			
Provisions		104,728	113,110
Total non-current liabilities		<u>104,728</u>	<u>113,110</u>
Total liabilities		<u>3,054,993</u>	<u>4,564,724</u>
Net assets		<u>53,749,405</u>	<u>57,454,136</u>
EQUITY			
Contributed equity	6	231,752,170	231,753,076
Reserves		9,989,496	10,296,433
Accumulated losses	7	(187,992,261)	(184,595,373)
Total equity		<u>53,749,405</u>	<u>57,454,136</u>

The above preliminary consolidated balance sheet should be read in conjunction with the accompanying notes, the 2015 Annual Report, the full financial report for the year ended 30 June 2015 and all ASX announcements.

Silex Systems Limited
Preliminary consolidated statement of changes in equity
for the year ended 30 June 2016

	Attributable to owners of Silex Systems Limited					
	Contributed equity	Reserves	Accumulated losses	Total	Non- controlling interests	Total
	\$	\$	\$	\$	\$	\$
Balance at 30 June 2014	231,671,231	9,882,811	(148,650,577)	92,903,465	(818,382)	92,085,083
Net (loss) for the year	-	-	(35,944,796)	(35,944,796)	-	(35,944,796)
Other comprehensive income	-	275,747	-	275,747	-	275,747
Total comprehensive income for the year	-	275,747	(35,944,796)	(35,669,049)	-	(35,669,049)
Transactions with owners in their capacity as owners						
Transfer of non-controlling interest on derecognition	-	-	-	-	818,382	818,382
Transaction costs from the issue of shares	(3,228)	-	-	(3,228)	-	(3,228)
Employee shares and options - value of employee services	-	222,737	-	222,737	-	222,737
Transfer from share based payments reserve	84,862	(84,862)	-	-	-	-
Deferred tax recognised directly in equity	211	-	-	211	-	211
	81,845	137,875	-	219,720	818,382	1,038,102
Balance at 30 June 2015	231,753,076	10,296,433	(184,595,373)	57,454,136	-	57,454,136
Net (loss) for the year	-	-	(3,396,888)	(3,396,888)	-	(3,396,888)
Other comprehensive income	-	(334,632)	-	(334,632)	-	(334,632)
Total comprehensive income for the year	-	(334,632)	(3,396,888)	(3,731,520)	-	(3,731,520)
Employee shares and options - value of employee services	-	27,695	-	27,695	-	27,695
Deferred tax recognised directly in equity	(906)	-	-	(906)	-	(906)
	(906)	27,695	-	26,789	-	26,789
Balance at 30 June 2016	231,752,170	9,989,496	(187,992,261)	53,749,405	-	53,749,405

The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes, the 2015 Annual Report, the full financial report for the year ended 30 June 2015 and all ASX announcements.

Silex Systems Limited
Preliminary consolidated statement of cash flows
for the year ended 30 June 2016

	Note	2016 \$	2015 \$
Cash flows from operating activities			
Receipts from customers and government grants (inclusive of GST)		5,467,115	14,506,671
Payments to suppliers and employees (inclusive of GST)		(13,835,072)	(24,718,382)
Interest received		1,942,298	2,284,445
Interest paid		(67)	(1,805)
Net cash (outflows) from operating activities	9	(6,425,726)	(7,929,071)
Cash flows from investing activities			
Proceeds from held to maturity investments - term deposits		4,473,123	6,582,588
Payments for property, plant and equipment		(42,608)	(215,990)
Payments for intangibles		-	(651,570)
Proceeds from sale of property, plant and equipment		2,586,838	14,636
Net cash inflows from investing activities		7,017,353	5,729,664
Cash flows from financing activities			
Transaction costs from issue of shares		-	(3,228)
Net cash (outflows) from financing activities		-	(3,228)
Net increase/(decrease) in cash held		591,627	(2,202,635)
Cash and cash equivalents at the beginning of the financial year		987,777	3,178,811
Effects of exchange rate changes on cash		2,342	11,601
Cash and cash equivalents at end of year *		1,581,746	987,777
Non-cash investing and financing activities	9		
*Held to maturity investments excluded from Cash and cash equivalents		49,700,328	54,173,451

The above preliminary consolidated statement of cash flows should be read in conjunction with the accompanying notes, the 2015 Annual Report, the full financial report for the year ended 30 June 2015 and all ASX announcements.

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016

Note 1 Significant changes in the current accounting period

The financial position and performance of the Company continued to be affected by the implementation of the outcomes of the strategic review announced by the Board on 30 June 2014 that will result in the return of the Company's focus to the development of the Company's foundation technology and core asset – the SILEX laser uranium enrichment technology. The resulting restructure has seen a number of significant changes in the year ended 30 June 2016, including the cessation of the Solar Systems business operations as announced on 30 July 2015. This resulted in the sale of the assets including the properties at Bridgewater and Mildura and the termination of the lease and exit of the manufacturing facility at Abbotsford. In July 2016, the Company completed the sale of the IP and associated manufacturing assets.

A License and Assignment Agreement between Translucent Inc and IQE Plc was executed on the 15 September 2015. The Agreement provides for the completion of product development and commercialisation activities during the 30-month license period by IQE. As a result, the Translucent technology has been transferred to IQE's facility in North Carolina and the Translucent facility in Palo Alto, California was vacated in December 2015.

Silex announced on 2 May 2016 that it had signed a term sheet with GE-Hitachi Nuclear Energy (GEH) to provide a framework for the parties to negotiate a mutually acceptable restructure of GE-Hitachi Global Laser Enrichment LLC (GLE). This followed GEH's notification that they were looking to exit GLE. Under the term sheet, Silex has agreed to reimburse GEH its pro-rata share of funding for GLE Wilmington operations whilst conducting a search to identify new investors for GLE and the commercialisation program.

	2016	2015
	\$	\$
Note 2 Revenue		
From continuing operations		
Recoverable project costs from GLE	-	1,493,766
Interest income	1,617,655	2,181,094
	1,617,655	3,674,860
From discontinued operations (note 11)		
License fees	1,821,297	-
Recoverable project costs from IQE	216,786	-
Sale of goods	93,151	132,924
Services	-	35,168
Interest income	22,717	14,921
	2,153,951	183,013

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

	2016	2015
	\$	\$
Note 3 Other income		
From continuing operations		
Research and development tax incentive	1,459,095	-
Foreign currency exchange gains (net)	-	42,475
Profit on sale of property, plant and equipment	8,733	-
	1,467,828	42,475
From discontinued operations (note 11)		
Research and development tax incentive	2,002,079	4,508,336
Government grants	-	668,276
Profit on sale of property, plant and equipment	1,340,055	14,636
	3,342,134	5,191,248
	2016	2015
	\$	\$
Note 4 Expenses		
(a) Net (loss) from continuing operations before income tax includes the following expenses:		
Depreciation of plant and equipment	26,503	53,915
Amortisation of software	688	5,906
Total depreciation and amortisation	27,191	59,821
Finance costs		
Interest and finance charges paid/payable	55	349
Finance costs expensed	55	349
Rental expenses relating to operating leases		
Minimum lease payments	366,603	386,568
Provision for employee entitlements	48,764	(46,581)
Defined contribution superannuation expense	196,618	220,730
Research and development costs (including Development expenditure)	5,138,954	3,140,446
Foreign exchange losses (net)	143,418	-

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

	2016	2015
	\$	\$
(b) Net profit/(loss) from discontinuing operations before income tax includes the following expenses:		
Impairment of plant and equipment	-	8,012,803
Impairment of land and buildings	-	837,002
Impairment of leasehold improvements	-	57,601
Impairment of intellectual property	-	10,266,947
Impairment of software	-	142,230
(Reversal) of impairment of plant and equipment	(175,000)	-
(Reversal) of impairment of intellectual property	(175,000)	-
Loss on derecognition of non-controlling interest in discontinued activities	-	818,382

	2016	2015
	\$	\$
Note 5 Income tax		
(Loss) from continuing operations before income tax expense	(4,700,759)	(2,284,993)
Profit/(loss) from discontinued operations before income tax expense	1,303,871	(33,659,803)
	(3,396,888)	(35,944,796)
Prima facie income tax calculated @ 30%	(1,019,066)	(10,783,439)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	8,309	66,821
Unrealised exchange differences on loan balances	610,205	3,338,830
Transfer of derecognition of non-controlling interests	-	245,515
Research and development tax incentive	544,981	1,148,181
Sundry items	16,284	41,952
	160,713	(5,942,140)
Net deferred tax asset not recognised	36,070	7,201,047
Effect of higher rates on overseas income	(196,783)	(1,258,907)
Income tax expense	-	-

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

	Parent entity		Parent entity	
	2016	2015	2016	2015
	Shares	Shares	\$	\$
Note 6 Contributed equity				
(a) Share capital				
Ordinary shares				
Fully paid	170,467,339	170,467,339	231,752,170	231,753,076

(b) Movements in ordinary share capital

Date	Details	Number of shares	Issue Price \$	\$
30 June 2014	Balance	170,367,734		231,671,231
Various	Issue of shares	99,605	Various	84,862
				231,756,093
	Less transaction costs arising on share issue			(3,228)
	Deferred tax recognised directly in equity			211
30 June 2015	Balance	170,467,339		231,753,076
	Deferred tax recognised directly in equity			(906)
30 June 2016	Balance	170,467,339		231,752,170

Note 7 Accumulated losses

	2016	2015
	\$	\$
Accumulated losses at the beginning of the financial year	(184,595,373)	(148,650,577)
Net (loss) attributable to members of Silex Systems Limited	(3,396,888)	(35,944,796)
Accumulated losses at the end of the financial year	(187,992,261)	(184,595,373)

Note 8 Net tangible asset backing

	2016	2015
	\$	\$
Net tangible asset backing per ordinary security	0.3143	0.3370

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

	2016	2015
	\$	\$
Note 9 Cash Flow information		
(a) Reconciliation of net (loss) after income tax to net cash (outflows) from operating activities		
Net (loss) after income tax	(3,396,888)	(35,944,796)
Depreciation and amortisation	27,191	59,821
(Reverse impairment)/impairment of property, plant and equipment	(175,000)	8,907,406
(Reverse impairment)/impairment of intangibles	(175,000)	10,409,177
(Profit) on sale of plant and equipment	(1,348,788)	(14,636)
Non cash employee benefits expense - share based payments	27,695	222,737
Loss on derecognition of non-controlling interest in discontinued operations	-	818,382
Net exchange differences	(338,258)	(195,691)
Decrease in prepayments and other current assets	142,003	282
(Increase)/decrease in trade and other debtors	(49,854)	267,076
Decrease in accrued income	1,976,927	7,468,430
Decrease in inventories	18,228	886,194
(Increase) in available-for-sale financial assets	(1,624,251)	-
Increase/(decrease) in trade and other creditors	197,390	(1,469,290)
(Decrease)/increase in provisions	(1,707,121)	655,837
Net cash (outflows) from operating activities	(6,425,726)	(7,929,071)
 (b) Non-cash investing and financing activities		
Acquisition of Available-for-sale financial assets from License Fee receivable	1,876,807	-

Note 10 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 11.

(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 year ended 30 June 2016 is contained in the preliminary consolidated income statement.

The Board of Directors assess 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.

Segment assets were \$54,594,394 at 30 June 2016 compared to \$59,794,515 at 30 June 2015. Segment assets are reconciled to total assets as follows:

	2016	2015
	\$	\$
Segment assets	54,594,394	59,794,515
Assets held for sale	350,000	1,575,487
Unallocated assets	1,860,004	648,858
Total assets as per balance sheet	56,804,398	62,018,860

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

Segment liabilities were \$2,376,614 at 30 June 2016 compared to \$1,507,702 at 30 June 2015. Segment liabilities are reconciled to total liabilities as follows:

	2016	2015
	\$	\$
Segment liabilities	2,376,614	1,507,702
Discontinued operations	678,379	3,057,022
Total liabilities as per balance sheet	3,054,993	4,564,724

Note 11 Discontinued operations and Assets held for sale

In accordance with the continued implementation of the outcomes of 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 year ended 30 June 2016, many of the assets were sold, including the properties and Bridgewater and Mildura, and the leased facility at Abbotsford was vacated. 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. Under the terms of the License and Assignment Agreement IQE was required to pay an initial License Fee of US\$1.415 million and this was received in March 2016. IQE has 30 months in which to elect to acquire Translucent's technology with the payment of a further US\$5 million. As a result, these two former business segments, net of cash, held to maturity investments, some receivables and Available-for-sale financial assets (shares in IQE) are reported as held for sale.

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

	2016	2015
	\$	\$
Revenue (note 2)	2,153,951	183,013
Other income (note 3)	3,342,134	5,191,248
Expenses	(4,192,214)	(39,034,064)
Profit/(loss) before income tax	1,303,871	(33,659,803)
Income tax expense	-	-
Profit/(loss) after income tax of the discontinued operations	1,303,871	(33,659,803)

	2016	2015
	\$	\$
Net cash (outflows) from operating activities	(2,114,844)	(6,237,983)
Net cash inflows/(outflows) from investing activities	3,064,790	(812,586)
Net cash inflows/(outflows) from the discontinued operations	949,946	(7,050,569)

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

	2016	2015
	\$	\$
Trade and other receivables	-	320,658
Inventories	-	18,228
Property, plant and equipment	175,000	1,236,601
Intangible assets	175,000	-
Total assets of disposal group held for sale	350,000	1,575,487
	2016	2015
	\$	\$
Payables	(303,819)	(936,805)
Provisions	(374,560)	(2,120,217)
Total liabilities associated with discontinued operations	(678,379)	(3,057,022)

Note 12 Contingent liabilities and commitments in accordance with Purchase and Sale Agreement Term Sheet

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). The term sheet sets out details of a proposed 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). Whilst the term sheet is principally non-binding, there are certain binding obligations. Under the term sheet, 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 year amounted to \$2,550,261.

Furthermore, under the term sheet, Silex is required to reimburse the Sellers for a further US\$2,100,000 for expenditure for the 6 months to 31 December 2016.

In addition, if a PSA is signed then Silex is required to make additional funding payments to GENE and GEHA. The amount of this additional funding amounts (a contingent liability) is US\$500,000 for the period to 30 June 2016 and a further US\$500,000 for the 6 months to 31 December 2016 i.e. US\$1 million in total, in the event a PSA is executed. At the current point in time, the timing of any outflow of funds is uncertain and subject to Silex signing a PSA.

Note 13 Events occurring after reporting date

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

Note 14 Basis of preparation of full-year financial report

This preliminary financial report has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001.

This preliminary 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 2015, the full financial report for the year ended 30 June 2015 and any public announcements made by Silex Systems Limited during the 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 year.

Silex Systems Limited
Notes to the preliminary financial statements
for the year ended 30 June 2016 (continued)

Statement of Compliance

This Appendix 4E has not been audited and is based on financial statements which are in the process of being audited.

The financial statements, together with the independent auditor's report will be made available in the Silex 2016 Annual Report.



Julie Ducie
Company Secretary
22 August 2016

IMPORTANT NOTICE:

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 distant and high risk.

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 remains high risk.

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: 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.