Silex Systems Limited
ABN 69 003 372 067

Financial Report
for the year ended 30 June 2016

Company Directory

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

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

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

Company Secretary
Ms J E Ducie

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

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

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

Auditors
PricewaterhouseCoopers

Solicitors
Baker & McKenzie

Bankers
Australia and New Zealand Banking Group Limited

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

IMPORTANT NOTICE:

Forward Looking Statements and Business Risks:

Silex Systems 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: the outcome of the GLE restructure which Silex is participating in, 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.

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 2016.

1. Directors and Company secretary

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

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

Mr A M Stock was a director from the beginning of the financial year until his retirement on 31 August 2015.

The Company secretary is Ms J E Ducie BBus, CA, GAICD. Ms Ducie 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.

2. Principal activities

During the year, the principal activity of the Company was the continued development and commercialisation of our core asset and foundation technology – the laser isotope separation process for uranium enrichment known as the SILEX technology. In addition, the Company's restructure announced on 30 June 2014 was finalised, resulting in the licensing of the Translucent Inc. cREO™ semiconductor technology and the sale of Solar Systems' assets. Both subsidiaries ceased operations during the year.

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:

	2016	2015
	$	$
Revenue from continuing operations	**1,617,655**	3,674,860
(Loss) before income tax expense	**(4,700,759)**	(2,284,993)
Income tax expense	**-**	-
Net (loss) from continuing operations	**(4,700,759)**	(2,284,993)
Net profit/(loss) from discontinued operations	**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)

Key information about the consolidated operations, results and financial position

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

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, GE-Hitachi Global Laser Enrichment LLC (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 on 29 April 2016 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, 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. Silex believes that GLE is the best vehicle to take the SILEX technology to market. Discussions continue with a number of parties interested in investing in GLE and the SILEX technology commercialisation program.

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. The combined funding from Silex for the Wilmington operation and the laser development activities in Sydney is expected to be up to $10m during CY2016. 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 as evidenced by the start-up of 10 new reactor units in the past year bringing the total number of operable reactors to 445 worldwide. 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.

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 become a shareholder in GLE ourselves such that we can have greater visibility and influence over the technology commercialisation program going forward.

Discontinued Operations – Translucent and Solar Systems
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 (LON: IQE). 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.

Silex subsidiary Solar Systems Pty Ltd also ceased operations during FY2016. Various property, plant and equipment and technology assets have been sold to third parties.

Financial review

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

	2016	2015
	$	$
Revenue from continuing operations	**1,617,655**	3,674,860
Other income	**1,467,828**	42,475
Research and development materials	**(60,107)**	(154,296)
Development expenditure	**(2,550,261)**	-
Employee benefits expense	**(3,091,636)**	(4,017,953)
Consultants and professional fees	**(951,041)**	(642,304)
Rent, utilities and property outgoings	**(433,766)**	(474,107)
Other expenses	**(699,431)**	(713,668)
Income tax expense	**-**	-
Net (loss) from continuing operations	**(4,700,759)**	(2,284,993)
Net profit/(loss) from discontinued operations	**1,303,871**	(33,659,803)
Net (loss) for the year	**(3,396,888)**	(35,944,796)

The net loss from ordinary activities of $3.4m decreased by $32.5m compared to the prior year. The net loss is comprised of the loss from continuing operations of $4.7m (an increase of $2.4m compared to the prior year) and the profit from discontinued operations of $1.3m (an improvement of $35.0m compared to the prior year).

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

Continuing Operations - Silex Systems
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. 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 –Translucent and Solar Systems
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 is responsible for the completion of product development and commercialisation activities during a 30-month license period. The Translucent operations in Palo Alto, California ceased at the end of December 2015.

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 proceeds of $2.3m received during FY2016. At the time of writing, all remaining assets of the Solar Systems business have been sold.

The net profit from discontinued operations of $1.3m in the current year includes the operations of Translucent and Solar Systems. 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.

Balance sheet

A summary of our balance sheet is set out below:

	30 June 2016	30 June 2015
	$	$
ASSETS		
Total current assets	**55,098,350**	61,951,409
Total non-current assets	**1,706,048**	67,451
Total assets	**56,804,398**	62,018,860
LIABILITIES		
Total current liabilities	**2,950,265**	4,451,614
Total non-current liabilities	**104,728**	113,110
Total liabilities	**3,054,993**	4,564,724
Net assets	**53,749,405**	57,454,136
EQUITY		
Total equity	**53,749,405**	57,454,136

As at 30 June 2016, total assets were $56.8m. Significant assets are cash holdings of $51.3m (cash and term deposits), trade and other receivables of $3.5m and Available-for-sale financial assets of $1.6m. Total liabilities were $3.1m and included trade and other payables of $1.8m and liabilities associated with our discontinued operations of $0.7m.

5. Earnings per share

	2016	2015
	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)

6. Significant changes in state of affairs

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 which aimed to return the Company's focus to the development of its foundation technology and core asset – the SILEX technology.

Silex announced on 2 May 2016 that it had signed a term sheet with GE-Hitachi Nuclear Energy (GEH) providing a framework for the parties to negotiate an acceptable restructure of 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.

Silex's execution of the strategic review resulted in a number of significant changes and cessation of operations for subsidiaries, Translucent Inc and Solar Systems during year ended 30 June 2016. A License and Assignment Agreement between Translucent Inc and IQE Plc was executed on 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.

In addition, the cessation of the Solar Systems business operation was 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.

There were no other significant changes in the state of affairs of the Company during the financial year not otherwise dealt with in this report.

7. Matters subsequent to the end of the financial year

Between 30 June 2016 and 22 September 2016, 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 approximately $1,160,000 since 30 June 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 30 June 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 above.

8. Likely developments and expected results of operations

Overview

Silex is a research and development company whose primary asset is the SILEX laser uranium enrichment technology which is licensed exclusively to GE-Hitachi Global Laser Enrichment LLC (GLE). As outlined above, GE-Hitachi Nuclear Energy (GEH) is looking to exit GLE, due to changes in business priorities and the continuing difficult market conditions driven by the Fukushima disaster in 2011. This announcement followed the slowing of the pace of the SILEX technology commercialisation program by GLE in July 2014. Silex continues in its efforts to restructure GLE through the introduction of new investors who can support GLE and the SILEX technology's transition to market.

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 led by Silex, and the timing of the recovery in the markets for uranium and enrichment services.

The implementation of the Company's major strategic review announced on 30 June 2014 involved decisions to cease the Solar Systems operations in Victoria and the Translucent operations in California. An exclusive License and Assignment Agreement for Translucent's technology was signed in September 2015 with UK-based IQE Plc (IQE) as noted above. The outcome of IQE's commercialisation program remains high risk.

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 a recovery in the accessible markets for both uranium and enrichment services.

Business strategies and future prospects

The SILEX Technology

Commercialisation Program

The SILEX technology is currently in the final phase of a commercialisation program involving engineering scale-up and economic validation. Silex has taken the lead on the search for new investors in 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 to advance with a number of interested parties. 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 become a shareholder in GLE ourselves such that we can have greater visibility and influence over the technology commercialisation program going forward.

Silex firmly 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; 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.

In addition to these key assets, the Paducah commercial plant opportunity (to produce natural grade uranium from tails stockpiles owned by the US Department of Energy (DOE)) is being negotiated exclusively between the DOE and GLE.

The focus of the Company is firmly set on the remainder of the commercialisation program for the SILEX technology. Whilst the pace of this commercialisation program was slowed significantly by GLE in July 2014, the technology engineering and economic validation program has continued to achieve pleasing results during FY2016. Key technology demonstration activities relating to improved process efficiency and scaled-up laser system performance were completed during the year in review at the Wilmington and Sydney project sites respectively.

GLE and Silex continue to conduct a stage-gated approach to commercialisation of the SILEX laser enrichment technology, albeit at reduced pace, with the following three phases:

Phase	Objectives	Status
Phase I	Test Loop technology demonstration and NRC commercial plant license approval	Completed 2013
Phase II	Economic and engineering validation for the initial commercial production module	Commenced in 2013
Phase III	Construction of the first full-scale commercial production facility	To be confirmed

Status of Nuclear Fuel Markets
Challenging market conditions continued to impact 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, the demand for enrichment and uranium remains low and prices are currently depressed.

A key contributing factor to the expected recovery of the nuclear fuel markets is the restart of nuclear reactors in Japan, which have been largely shutdown since 2011. At the time of writing, only 3 reactors are connected to the grid in Japan with another 22 reactors in the restart approval process, according to the World Nuclear Association (WNA) (world-nuclear.org). Despite the slow pace of restarts, Japan remains committed to nuclear power generation with a target to produce around one fifth of its power from nuclear energy by 2030.

Longer term, a more positive outlook remains for the nuclear industry, driven by the merits of nuclear power as a clean emissions-free source of base load electricity becoming better understood around the world. Billions of dollars of investment continues to be made every year in the nuclear industry with new nuclear plant builds continuing in the US and the UK, as well as extensive programs in China, Russia, India and South Korea. This is in addition to extensions being granted to the operating lives of existing nuclear plants which could see many of these plants generating clean, reliable and affordable baseload electricity for up to 80 years. Ten new reactor units commenced operations in the past year giving a total of 445 operable reactors globally. With an additional 61 reactors under construction and 170 planned – the demand and supply fundamentals of the nuclear fuel markets are set to recover in the coming years.

We therefore remain encouraged by these positive developments in the global nuclear industry. We continue to believe the SILEX technology, being our core asset and the only third generation laser enrichment technology being commercialised in the world, is the best path forward to deliver value to our shareholders. However, the risks surrounding nuclear industry growth prospects and the related nuclear fuel market conditions, and the outcome of the GLE restructure, could impact the commercialisation program outlined above and ultimately the timing of future potential milestone payments and royalties under the Technology Commercialisation and License Agreement signed with GLE in 2006.

9. Information on Directors

a) Directors' profiles

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

Dr Lisa McIntyre BSc (Hons), PhD, GAICD. *Chair – Independent non-executive director*		
Experience and expertise	Independent non-executive director for four years and Chair for two years. Extensive experience as a Company Director. Current roles include icare NSW, HCF, Cover-More Group Limited, GenesisCare and Your Tutor Pty Ltd. 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	Non-executive director of Cover-More Group Limited since November 2013	
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	48,230
	Options over ordinary shares – Silex Systems Limited	Nil

Dr Michael Goldsworthy BSc (Hons), MSc, PhD, FAIP, GAICD. *Chief Executive Officer/Managing Director*		
Experience and expertise	CEO/MD for twenty four 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	1,102,207

Mr Christopher Wilks BComm, FAICD. *Non-executive director*		
Experience and expertise	Non-executive director for twenty eight years. Finance director and CFO of Sonic Healthcare Limited. Various other directorships held of public companies held over the last thirty years.	
Other current listed company directorships	Executive director of Sonic Healthcare Limited since 1989 (Finance director since 1993)	
Former listed company directorships in last 3 years	None	
Special responsibilities	Business development and corporate strategy 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	367,035

Mr Robert Lee BSc MBA, GAICD. *Independent non-executive director*		
Experience and expertise	Independent non-executive director from 1 July 2015. Experienced company director, corporate adviser and former Executive Director of Macquarie Group Limited. Currently a non-executive director of Westmead IVF and Maple-Brown Abbott Limited.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chair of Audit Committee Member of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	Nil
	Options over ordinary shares – Silex Systems Limited	Nil

The following individual is a former director of the Silex Board:

Mr Andrew Stock BEng (Chem) (Hons), FIE Aust, GAICD. *Independent non-executive director until 31 August 2015*		
Experience and expertise	Non-executive director for 2 years	
Other current listed company directorships	Non-executive director of Horizon Oil Limited (director since 2011)	
Former listed company directorships in last 3 years	Non-executive director of Geodynamics Limited (2003 to 2015)	
Special responsibilities	Chair of Audit Committee Member of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	Nil
	Options over ordinary shares – Silex Systems Limited	Nil

10. Meetings

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

Director's name	Directors' Meetings Number Held	Directors' Meetings Number Attended	Audit Committee Meetings Number Held	Audit Committee Meetings Number Attended	People & Remuneration Committee Meetings Number Held	People & Remuneration Committee Meetings Number Attended
Dr L M McIntyre	10	10	3	3	3	3
Dr M P Goldsworthy	10	10	*	*	*	*
Mr R A R Lee	10	10	3	3	3	3
Mr A M Stock (held to date of retirement)	2	2	1	1	1	1
Mr C D Wilks	10	10	3	3	3	3

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

11. Remuneration Report

Dear Shareholders,

On behalf of the Board, I am pleased to present to you the FY2016 Silex Systems Limited Remuneration Report for which we seek your support at our Annual General Meeting in November.

The details of the remuneration received by the Company's Key Management Personnel (KMP) are prepared in accordance with accounting standards, legislative requirements and best practice corporate governance guidance. The following comments aim to provide greater insight into our remuneration policies and practices during what has been a difficult time for Silex and our shareholders.

Challenging business conditions continue to be faced by the Company, which are largely attributable to the ongoing depressed state of the nuclear fuel markets in a post-Fukushima operating environment. These conditions continue to negatively impact the commercialisation program of our foundation technology – the SILEX laser-based uranium enrichment technology and ultimately our share price. Despite these difficult conditions, Silex continues to push forward with activities to support the licensees of our unique and potentially disruptive technologies – the SILEX technology and the Translucent cREO™ semiconductor technology.

We have successfully implemented our major strategic review and strategy to significantly reduce our operational cash burn and devote our resources to the commercialisation of the SILEX technology. As a result of our restructure, significant changes have taken place throughout the Company since the announcement of our strategic review on 30 June 2014, including a 75% reduction in head count Company wide, a ~50% reduction in corporate headcount and the combining of various roles and responsibilities to streamline operations and reduce costs.

Some difficult decisions have been made in recent years which impacted the Company's KMP. From 1 January 2015, our CEO/MD agreed to a reduction of approximately 55% to Total Maximum Potential Remuneration, which included a reduction of 31% in Total Fixed Remuneration. No remuneration increases were awarded to KMP for the 3 years to 30 June 2016 and from 1 April 2016, our Board agreed to reduce its remuneration with the cessation of committee fees.

For FY2017, no changes were made to the remuneration package of our CEO/MD. We awarded various members of our team salary increases – the retention of our significantly reduced team and their individual and collective expertise that benefits the Company being a key focus. A full review was completed of the remuneration package of our CFO/Company Secretary and an increase of 12.65% to Total Fixed Remuneration and a 25% increase to the maximum available short term incentive awarded. We remain cognisant of shareholder concern that any long-term equity based remuneration is linked to growth in shareholder value. Therefore, at this time, it has been determined that no long-term incentives will be granted.

On behalf of the Board, I invite you to review the full report and thank you for your continued interest. I look forward to answering any questions you may have at our Annual General Meeting in November 2016.

Lisa McIntyre

Dr Lisa McIntyre
Chair, People & Remuneration Committee

The Directors present the Remuneration Report for the year ended 30 June 2016, outlining key aspects of our remuneration policy and framework and remuneration awarded for the Company's non-executive directors, executive directors and other executive key management personnel.

The report contains the following sections:

a) Directors and KMP disclosed in this report
b) Remuneration governance
c) Linking remuneration structure to company performance
d) Voting and comments made at the Company's 2015 Annual General Meeting
e) Executive KMP remuneration structure
f) Link between FY2016 remuneration and performance
g) Non-executives directors' remuneration
h) Director's and KMP remuneration
i) Details of share-based compensation and bonuses
j) Shares under option

a) Directors and KMP disclosed in this report

The 2016 Remuneration Report has been prepared in accordance with the requirements of section 300A of the *Corporations Act 2001* and accounting standard requirements and applies to KMP of the Company. KMP are defined as those persons who have authority and responsibility for planning, directing and controlling the activities of the Company.

Name	**Position**
Non-executive and executive directors	
Dr L M McIntyre	Chair and Non-executive director
Dr M P Goldsworthy	CEO/Managing Director – Executive director
Mr R A R Lee	Non-executive director
Mr A M Stock	Non-executive director (until 31 August 2015)
Mr C D Wilks	Non-executive director
Other executive KMP	
Ms J E Ducie	CFO/Company Secretary
Mr C R Murray	CEO – Solar Systems (until 31 August 2015)

b) Remuneration governance

Board oversight
The Silex Board is ultimately responsible for ensuring that the Company's remuneration structure is equitable and aligned with the long-term interests of shareholders. The Board and its advisors are independent of Management when making decisions affecting employee remuneration.

People & Remuneration Committee structure
The People & Remuneration Committee is a committee of the Board currently comprised of a majority of independent non-executive directors. Its role is to make recommendations to the Board regarding the Company's remuneration policies and practices, including those applicable to the Company's KMP.

Members of the People & Remuneration Committee were as follows:

Committee members	Dr L M McIntyre – Chair Mr R A R Lee Mr A M Stock (until 31 August 2015) Mr C D Wilks
Committee secretary	Ms A N Scott
Number of meetings in FY2016	3
Other individuals who regularly attended meetings	Dr M P Goldsworthy – CEO/MD

The role of the People & Remuneration Committee is to:

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

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

Use of remuneration consultants

The Company did not engage remuneration consultants during FY2016. The Company has previously engaged AON Hewitt to conduct a thorough review of KMP and Board remuneration and structure. The recommendations from that review were fully implemented during FY2015 and FY2016. The Company continues to access market data and industry remuneration surveys and reports on a regular basis.

c) Linking remuneration structure to company performance

Remuneration strategy, policy and framework

In determining executive KMP remuneration, the Board's policy is based on the principle of aligning remuneration outcomes with the successful delivery of strategy whilst ensuring our remuneration practices are designed to attract, motivate and retain highly qualified and specialised personnel. Regard for contemporary market practice, good governance and alignment to changing business circumstances is held at all times. The Company aims to reward executive KMP with a level and mix of remuneration commensurate with their position and responsibilities within the Company that is competitive within the market in which they were recruited. Executive KMP who have a greater ability to influence outcomes have a greater portion of their overall remuneration package 'at risk'.

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

The executive KMP remuneration framework has 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.
At Risk Incentives – Short-term Incentive (STI)	Reward executive's performance, representative of their contribution to achievement of Company outcomes, as well as functional Key Performance Indicators (KPIs).	Linked to key performance hurdles that may include financial metrics such as operating cash flow and non-financial measures, such as commercial deliverables, and other specific operational and strategic deliverables for the Company.	Rewards are generally based on a percentage of the executive's Total Fixed Remuneration (TFR).

Long-term Incentives (LTI) were not offered to the CEO/MD or CFO/Company Secretary in FY2016. At this time, it has been determined that no LTIs will be granted for FY2017.

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 assist in this assessment, the Committee receives detailed reports on performance from management which are based on independently verifiable data such as financial measures, market information and data from independently run surveys. At all times the Board has the discretion to make a final determination based on share price performance or other factors.

In the 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 and comments made at the Company's 2015 Annual General Meeting

Silex Systems Limited received more than 98% of "yes" votes on its Remuneration Report for the 2015 financial year.

e) Executive KMP remuneration structure

For FY2016, executive KMP remuneration packages included a mix of total fixed remuneration (TFR) and short-term at-risk incentives.

Total Fixed Remuneration (TFR)

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.

Effective from 1 January 2015, the TFR for the Silex CEO/MD was significantly reduced by mutual agreement. For FY2016, the TFR for all other KMP remained unchanged.

Short-term Incentives (STI)

	CEO/Managing Director	**CFO/Company Secretary**	**CEO – Solar Systems (nb. no FY2016 STI issued)**
Composition	Awards may be delivered in cash or Restricted Silex Systems Limited ordinary shares subject to shareholder approval.	Awards are currently paid in cash. A portion of the payment may also be delivered in Restricted Silex Systems Limited ordinary shares.	Awards were historically paid in cash.
Assessment	Award is subject to the achievement of agreed performance criteria comprising financial metrics and specific key strategic and commercial objectives.*	Award is subject to the achievement of divisional and Company financial performance, supplemented by strategic and commercial measures specific to business unit deliverables.*	Award was subject to the achievement of Solar Systems financial performance, supplemented by strategic and commercial measures specific to the Solar Systems business.*
Total Maximum Opportunity	$200,000	$80,000	$160,000
At Risk	Yes	Yes	Yes

**For commercially sensitive reasons, short-term incentive targets for executive KMP are not published within this Remuneration Report, however the People & Remuneration Committee believe that all targets are set appropriately and align with shareholder expectations and execution of Company strategy. At all times the Board has the discretion to make a final determination based on share price performance or other factors.*

Long-term Incentive (LTI)
No long-term incentives were granted during FY2016 to the CEO/MD or CFO/Company Secretary.

A LTI/Success Fee Bonus was offered to the CEO – Solar Systems in FY2014. This was not time-bound and remained an ongoing potential incentive throughout FY2015 and until the announcement of the cessation of the Solar Systems' business operations on 30 July 2015. The maximum incentive opportunity was in-line with the objectives of the Board's major strategic review and was tied to the financial close of a transaction for the Solar Systems business or assets and the value secured for Silex shareholders, after taking into account Silex's investment to date. As a result of the announcement of the cessation of the operations and redundancy of the CEO, no long-term incentive was payable.

At the time of writing, it has been determined that no long-term incentives will be granted to the CEO/MD or CFO/Company Secretary during FY2017.

f) Link between FY2016 remuneration and performance

FY2016 performance and impact on remuneration
Throughout FY2016, the Company continued to implement significant strategic changes and respond to challenging operating conditions in the nuclear industry. The Company's primary focus was on the continued development and commercialisation of the SILEX technology. In addition, the major strategic review implementation was completed resulting in the exclusive License and Assignment Agreement for Translucent's proprietary cREO™ technology being signed on the 15 September 2015, and the transfer of the technology to IQE Plc during the year. As 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 Solar Systems business also ceased operating during the year and various property, plant and equipment and technology assets sold to third parties.

The STI performance criteria for FY2016 for the CEO/MD and CFO/Company Secretary were heavily focussed on the deliverables associated with the SILEX technology and the Company's strategic review. Key performance criteria met included the licensing of the Translucent cREO™ technology, progress in the commercialisation of the SILEX technology, delivery of financial rigour and operational cost reductions and resolution of the Solar Systems business.

The Board awarded the CEO/MD and the CFO/Company Secretary 70% and 85% respectively of the maximum STIs available. These incentives were paid in cash after satisfying the required service and performance conditions.

The FY2015 STI and 25% of the maximum short-term inventive for FY2016 for the CFO/Company Secretary was cancelled and a retainer equal to the maximum STI opportunity put in place in November 2014. This was in light of the significant restructure that resulted from the major strategic review and the considerable absorption and expansion of duties following a 50% headcount reduction in corporate resources. This retainer was time bound and eligibility criteria deemed satisfied on 30 September 2015, with payment made in October 2015.

Statutory performance indicators

We aim to align KMP remuneration to our strategic and business objectives and the creation of shareholder wealth. The below table shows measures of the Company's financial performance over the last five years as required by the *Corporations Act 2001*. However, as a pre-revenue company, the below measures are generally not the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there is no direct correlation between the statutory key performance measures and the variable remuneration awarded.

Year ended 30 June	EPS Cents	KMP STI award $	Share price at 30 June $
2012	(21.6)	304,000	3.20
2013	(0.1)	140,000	2.20
2014	(17.3)	76,000	1.16
2015	(21.1)	322,400	0.46
2016	(2.0)	211,000	0.31

Contractual arrangements with executive KMPs

Component	CEO/MD	CFO/Company Secretary	CEO - Solar Systems
Total Fixed Remuneration	$550,000*	$288,500	$400,000
Contract duration	Ongoing Common Law Contract	Ongoing Common Law Contract	Contract terminated by redundancy 31 August 2015
Notice by the individual or Company	6 months	6 months	6 months
Termination of employment (without cause)	Partial payment for pro-rata STI may be applicable at the Board's discretion	Partial payment for pro-rata STI may be applicable at the Board's discretion	Partial payment for pro-rata STI may be applicable at the Board's discretion
Termination of employment (with cause) or by the individual	STI/LTI not awarded	STI/LTI not awarded	STI/LTI not awarded

**Total Fixed Remuneration reduced from $800,000 to $550,000 from 1 January 2015.*

g) Non-executive directors' remuneration

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

With effect from 1 April 2016, all non-executive directors agreed to reduce their remuneration with the cessation of committee fees.

The aggregate non-executive directors' fees are reviewed periodically by the Board taking into account comparable roles and market data provided by an independent remuneration consultant. The non-executive director's fees remain well within the limits of the shareholder approved aggregate directors fee pool maximum of $750,000, as approved by shareholders at the 2011 AGM and have in the aggregate significantly reduced from $465,905 in FY2014 to $304,331 in FY2016. The process of Board renewal continued during FY2016 with one director retiring from the Board. The Silex Board currently comprises three non-executive directors and an executive director. The current Board size is deemed appropriate in light of the current activities of the Company.

The current fee structure is outlined below:

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

Additional fees may be payable to non-executive directors should they undertake specific consulting projects for the Company in the areas of their expertise.

h) 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 *** **$**	**Non - monetary benefits** **$**	**Long service leave** **$**	**Post-employment benefits - superannuation** **$**	**Other**** **$**	**Cash bonus** **$**	**Options** **$**	**Deferred rights** **$**	**Total** **$**
Executive directors										
Dr M P Goldsworthy	**2016**	**515,664**	**10,624**	**(659)**	**34,908**	**-**	**140,000**	**-**	**24,725**	**725,262**
	2015	631,293	16,554	(1,189)	34,983	-	140,000	100,797	125,981	1,048,419
Non-executive directors (NED)										
Dr L M McIntyre	**2016**	**110,500**	**-**	**-**	**10,498**	**-**	**-**	**-**	**-**	**120,998**
	2015	114,000	-	-	10,830	-	-	-	-	124,830
Mr R A R Lee	**2016**	**89,164**	**-**	**-**	**8,471**	**-**	**-**	**-**	**-**	**97,635**
(from 1/7/2015)	2015	-	-	-	-	-	-	-	-	**-**
Mr C D Wilks	**2016**	**121,500**	**-**	**-**	**11,543**	**-**	**-**	**-**	**-**	**133,043**
	2015	132,625	-	-	12,599	-	-	33,566	-	178,790
Mr A M Stock	**2016**	**15,667**	**-**	**-**	**1,488**	**-**	**-**	**-**	**-**	**17,155**
(until 31/8/2015)	2015	94,000	-	-	8,930	-	-	-	-	**102,930**
Other key management personnel and group executives										
Ms J E Ducie	**2016**	**267,604**	**-**	**10,803**	**29,908**	**-**	**71,000**	**-**	**2,970**	**382,285**
	2015	265,190	-	4,361	29,983	-	80,000	-	2,962	382,496
Mr C R Murray	**2016**	**46,187**	**12,973**	**(1,136)**	**18,688**	**229,284**	**-**	**-**	**-**	**305,996**
(until 31/8/2015)	2015	352,368	14,626	682	37,012	-	102,400	-	-	507,088
Total executive directors and other KMP	**2016**	**829,455**	**23,597**	**9,008**	**83,504**	**229,284**	**211,000**	**-**	**27,695**	**1,413,543**
	2015	1,248,851	31,180	3,854	101,978	-	322,400	100,797	128,943	1,938,003
Total NED remuneration	**2016**	**336,831**	**-**	**-**	**32,000**	**-**	**-**	**-**	**-**	**368,831**
	2015	340,625	-	-	32,359	-	-	33,566	-	406,550
Total KMP remuneration	**2016**	**1,166,286**	**23,597**	**9,008**	**115,504**	**229,284**	**211,000**	**-**	**27,695**	**1,782,374**
	2015	1,589,476	31,180	3,854	134,337	-	322,400	134,363	128,943	2,344,553

** Inclusive of movement in annual leave accruals.*
*** Other includes termination payments paid to Mr C R Murray.*

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 *	
	2016	2015	**2016**	2015	**2016**	2015
Directors						
Dr L M McIntyre	**100.0%**	100.0%	**N/A**	N/A	**N/A**	N/A
Dr M P Goldsworthy	**77.3%**	65.0%	**19.3%**	13.4%	**3.4%**	21.6%
Mr R A R Lee	**100.0%**	-	**N/A**	-	**N/A**	-
Mr C D Wilks	**100.0%**	81.2%	**N/A**	N/A	**N/A**	18.8%
Mr A M Stock	**100.0%**	100.0%	**N/A**	N/A	**N/A**	N/A
Other Executive KMP						
Ms J E Ducie	**80.6%**	78.3%	**18.6%**	20.9%	**0.8%**	0.8%
Mr C R Murray	**100.0%**	79.8%	**0.0%**	20.2%	**0.0%**	0.0%

**This relates to options and deferred shares issued on a LTI basis with the percentages based on the value of amounts expensed during the year.*

i) Details of share-based compensation and bonuses

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

There were no options granted or any options exercised by any individual during FY2016 (or FY2015).

STI bonuses
For each STI award for the year ended 30 June 2016 (payable in the form of a cash bonus), the percentage of the bonus awarded or forfeited is set out below:

2016	Total opportunity $	Awarded %	Forfeited %
Dr M P Goldsworthy	200,000	70%	30%
Ms J E Ducie *	20,000	100%	0%
Ms J E Ducie	60,000	85%	15%

**This relates to a retention based bonus with eligibility criteria expiring 30 September 2015. The criteria were met and the bonus was paid in FY2016.*

LTI deferred rights
For each LTI award for the year ended 30 June 2016 (payable in the form of deferred rights), the percentage of the bonus awarded or forfeited is set out below:

2016	Awarded %	Forfeited %	Performance period
Dr M P Goldsworthy	0%	100%	3 years ending 30/06/2016
Ms J E Ducie	0%	100%	3 years ending 30/06/2016

The bonuses were subject to performance criteria comprising Total Shareholder Return over a 3-year period ending 30 June 2016 and a share price hurdle of $5.40.

LTI cash incentive

For each LTI award for the year ended 30 June 2016 (payable in the form of cash), the percentage of the bonuses awarded or forfeited is set out below:

2016	Awarded %	Forfeited %	Performance period
Mr C R Murray	0%	100%	No set period

The bonus was in relation to closing a transaction for the Solar Systems business or assets.

Equity instruments held by KMP

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

2016	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to shares	Other changes during the year	Balance at the end of the year
Directors of Silex Systems Limited					
Dr L M McIntyre	48,230	-	-	-	48,230
Dr M P Goldsworthy	5,979,055	-	-	-	5,979,055
Mr R A R Lee	-	-	-	-	-
Mr C D Wilks	2,814,021	-	-	-	2,814,021
*Former Directors**					
Mr A M Stock	-	-	-	-	N/A
Other Executive KMP					
Ms J E Ducie	3,759	-	-	-	3,759
*Former Executive KMP**					
Mr C R Murray	-	-	-	-	N/A

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

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

2016 Name	Balance at the start of the year	Granted during the year as compensation	Lapsed during the year	Forfeited during the year	Exercised during the year	Balance at the end of the year	Vested and exercisable at the end of the year	Unvested
Directors of Silex Systems Limited								
Dr M P Goldsworthy	1,102,207	-	-	-	-	1,102,207	-	1,102,207
Mr C D Wilks	367,035	-	-	-	-	367,035	-	367,035
Other Executive KMP								
Ms J E Ducie	100,000	-	(40,000)	-	-	60,000	60,000	-

j) Shares under option

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

Number of options	Issue Price of shares	Grant date	Expiry date
1,469,242	$2.04	8 December 2011	7 December 2016

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Share Trading Policy
The Silex Share 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, KMP are only permitted to trade in Silex securities during certain open periods. The policy applies other restrictions with regard to hedging arrangements. KMP must not enter into any hedging arrangements.

12. 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.

13. 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. Solar Systems was subject to a number of regulations including VIC Occupational Health and Safety Act 2004, VIC Occupational Health and Safety Regulations 2007, VIC Dangerous Goods Act 1985, VIC Dangerous Goods (Storage and Handling) Interim Regulations 2011.

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.

14. 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.

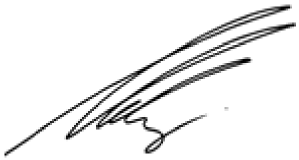
During the year the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2016	2015
	$	$
Other assurance services		
PricewaterhouseCoopers Australian firm		
Audit of government grants	-	5,000
Total remuneration for other assurance services	-	5,000
Other services		
Corporate services	-	20,400
Total remuneration for other services	-	20,400
Total remuneration for non-audit services	-	25,400

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

16. 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 26.

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



Dr M P Goldsworthy
CEO/MD

Mr C D Wilks
Director

Sydney, 22 September 2016

Auditor's Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 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 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.

S. Hump

Stephen Humphries
Partner
PricewaterhouseCoopers

Sydney
22 September 2016

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, 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 2016 Corporate Governance Statement is dated as at 30 June 2016 and reflects the corporate governance practices in place throughout the 2016 financial year. The 2016 Corporate Governance Statement was approved by the Board on 22 September 2016 and lodged with the ASX Appendix 4G, on 22 September 2016. 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 2016

Contents

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

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

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

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 4 to 9, which is not part of this financial report.

The financial report was authorised for issue by the Directors on 22 September 2016. The Directors have the power to amend and reissue the financial report.

	Note	2016 $	2015 $
Revenue from continuing operations	3	**1,617,655**	3,674,860
Other income	4	**1,467,828**	42,475
Research and development materials		**(60,107)**	(154,296)
Development expenditure		**(2,550,261)**	-
Finance costs	5	**(55)**	(349)
Depreciation and amortisation expense	5	**(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	6	**-**	-
Net (loss) from continuing operations		**(4,700,759)**	(2,284,993)
Net profit/(loss) from discontinued operations	13	**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)

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

	2016	2015
	$	$
Net (loss) for the year	**(3,396,888)**	(35,944,796)
Other comprehensive income		
Items that may be reclassified to profit or loss:		
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 consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

	Note	**30 June 2016** $	30 June 2015 $
ASSETS			
Current assets			
Cash and cash equivalents	7(a)	**1,581,746**	987,777
Held to maturity investments - term deposits	7(b)	**49,700,328**	54,173,451
Trade and other receivables	7(c)	**3,466,276**	5,214,694
		54,748,350	60,375,922
Assets classified as held for sale	13	**350,000**	1,575,487
Total current assets		**55,098,350**	61,951,409
Non-current assets			
Available-for-sale financial assets	7(d)	**1,624,251**	-
Property, plant and equipment	7(e)	**80,001**	64,061
Deferred tax assets	7(f)	**1,796**	2,702
Intangible assets	7(g)	**-**	688
Total non-current assets		**1,706,048**	67,451
Total assets		**56,804,398**	62,018,860
LIABILITIES			
Current liabilities			
Trade and other payables	8(a)	**1,799,049**	968,673
Provisions	8(b)	**472,837**	425,919
		2,271,886	1,394,592
Liabilities associated with discontinued operations	13	**678,379**	3,057,022
Total current liabilities		**2,950,265**	4,451,614
Non-current liabilities			
Provisions	8(b)	**104,728**	113,110
Total non-current liabilities		**104,728**	113,110
Total liabilities		**3,054,993**	4,564,724
Net assets		**53,749,405**	57,454,136
EQUITY			
Contributed equity	9(a)	**231,752,170**	231,753,076
Reserves	9(b)	**9,989,496**	10,296,433
Accumulated losses	9(c)	**(187,992,261)**	(184,595,373)
Total equity		**53,749,405**	57,454,136

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 $	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)**
Transactions with owners in their capacity as owners						
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 consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	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	10(a)	**(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 the financial year *		**1,581,746**	987,777
Non-cash investing and financing activities	10(b)		
*Held to maturity investments excluded from Cash and cash equivalents		**49,700,328**	54,173,451

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

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 has resulted 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 for CY2016 whilst conducting a search to identify new investors for GLE and the commercialisation program.

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 is one operating segment based on the reports reviewed by Management and the Board of Directors to make strategic decisions. This segment is Silex and this relates to the operations of the parent entity which is based in New South Wales.

Solar Systems and Translucent have been disclosed as discontinued operations in note 13 and not as reportable segments.

(b) Segment information provided to Management and 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 consolidated income statement.

Segment assets were $54,594,394 at 30 June 2016 compared to $59,794,515 at 30 June 2015.

Segment liabilities were $2,376,614 at 30 June 2016 compared to $1,507,702 at 30 June 2015.

Additions to non-current segment assets (other than deferred tax assets) were $42,608 (2015: $7,750).

(c) Other segment information

(i) Segment revenue

Sales between Silex entities are carried out at arm's length and are eliminated on consolidation.

The entity is domiciled in Australia. The amount of the Company's revenue from external customers in Australia including the discontinued operations is $1,670,270 (2015: $3,835,115) and the total segment revenue from external customers in the United States is $2,101,336 (2015: $22,758). Segment revenues are allocated based on the country in which the supplier is located.

Revenues of $nil (2015: $1,493,766) are derived from a single external customer. These revenues are attributable to the Silex segment. Revenues attributable to the discontinued operations of Translucent of $2,095,334 (2015: $nil) are derived from a single external customer.

(ii) Segment result

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. Solar Systems and Translucent have been disclosed as discontinued operations and not as reportable segments. A reconciliation of the segment result to Net (loss) from continuing operations is provided as follows.

	2016	2015
	$	$
Segment result	**(4,700,759)**	(2,284,993)
Net (loss) before income tax from continuing operations	**(4,700,759)**	(2,284,993)

(iii) Segment assets

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. Reportable 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

The total of non-current assets other than deferred tax assets and Available-for-sale financial assets located in Australia is $41,047 (2015: $64,749) and the total of these non-current assets located in other countries is $38,954 (2015: $nil).

(iv) Segment liabilities

Reportable segment liabilities exclude intercompany loans, income tax payable and deferred tax liabilities. Reportable 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

	2016	2015
	$	$
Note 3 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 13)		
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

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

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

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

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

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

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

	2016	2015
	$	$
Note 4 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

	2016	2015
	$	$
From discontinued operations (note 13)		
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

Grants from the government 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 costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.
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) Government grants
Government solar project grants of $nil (2015: $602,603), were recognised as Other income by Solar Systems during the financial year. The Company has met the conditions of the grants and the income has been recognised. Export Market Development Grant income of $nil (2015: $65,673) was recognised as Other income during the financial year by Solar Systems. There are no unfulfilled conditions attached to these grants.

(ii) Research and development tax incentive
Research and development tax incentive income of $3,461,174 (2015: $4,508,336) was recognised as Other income by the Company during the year. The Company has met the conditions of the tax incentive.

Note 5 Expenses

	2016	2015
	$	$
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	**5,138,954**	3,140,446
Foreign exchange losses (net)	**143,418**	-

	2016	2015
	$	$
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

(i) Inventory expense
Inventories recognised as an expense (including write-down to net realisable value) during the year ended 30 June 2016 amounted to $18,228 (2015: $2,244,418). This consists of $18,228 (2015: $2,244,418) included in net profit/(loss) from discontinued operations in the consolidated income statement. Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2016 amounted to $nil (2015: $746,203). $nil (2015: $746,203) has been included in net profit/(loss) from discontinued operations.

Note 6 Income tax expense

(a) Numerical reconciliation of income tax expense to prima facie tax payable

	2016 $	2015 $
(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	**-**	-

(b) Amounts recognised directly in equity

	2016 $	2015 $
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax - debited/(credited) directly to equity	**906**	(211)

(c) Tax losses

	2016 $	2015 $
Unused tax losses for which no deferred tax asset has been recognised	**123,764,061**	113,018,273
Potential tax benefit at tax rate	**41,892,524**	39,210,886

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

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

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

(d) Tax consolidation legislation

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

	2016	2015
	$	$
(e) Franking account balance		
Franking credits available for the subsequent financial year at 30%	**8,154,151**	8,154,151

The above amount represents the balance of the franking accounts at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
(d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Note 7 Assets

This note provides information about the Company's assets.

	2016	2015
	$	$
Note 7(a) Current assets - Cash and cash equivalents		
Short-term bank deposits	**1,581,746**	987,777
	1,581,746	987,777

Cash and cash equivalents includes 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.

(i) Cash at bank and on hand

These bear interest between 0% and 2.65% (2015: between 0% and 2.90%).

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

	2016	2015
	$	$
Note 7(b) Current assets - Held to maturity investments - Term deposits		
Bank deposits	**49,700,328**	54,173,451

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

The bank deposits earn interest at between 2.60% and 3.15% (2015: between 2.85% and 3.7%). The deposits have an average maturity of 332 days (2015: 344 days).

	2016	2015
	$	$
Note 7(c) Current assets - Trade and other receivables		
Trade debtors	**97,561**	1,790
Other receivables	**72,282**	3,822
Accrued income	**3,172,395**	5,149,322
Prepayments	**124,038**	59,760
	3,466,276	5,214,694

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

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

As at 30 June 2016, trade receivables of the Company with a nominal value of $nil were impaired (2015: $nil). As at 30 June 2016, the provision for doubtful debts was $nil (2015: $nil).

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

(ii) Past due but not impaired trade receivables
As at 30 June 2016, trade receivables of $64,509 (2015: $nil) were past due but not impaired. These amounts were received in July 2016.

(iii) Other receivables
These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained. As at 30 June 2016, other receivables of the Company with a nominal value of $nil were impaired (2015: $nil). As at 30 June 2016, the provision for doubtful debts for other receivables was $nil (2015: $nil).

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

(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.

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

	2016	2015
	$	$
Note 7(d) Non-current assets - Available-for-sale financial assets		
Listed securities		
Equity securities	**1,624,251**	**-**

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

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

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

(iii) Amounts recognised in other comprehensive income

During the year, the following (losses) were recognised in other comprehensive income.

	2016	2015
	$	$
(Losses) recognised in other comprehensive income (see note 9(b))	**(283,451)**	-

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

	Plant and equipment	Motor vehicles	Total
	$	$	$
At 30 June 2014			
Cost	841,284	180,826	1,022,110
Accumulated depreciation	(765,885)	(145,999)	(911,884)
Net book amount	75,399	34,827	110,226
Year ended 30 June 2015			
Opening net book amount	75,399	34,827	110,226
Additions	7,750	-	7,750
Depreciation charge	(28,442)	(25,473)	(53,915)
Closing net book value	54,707	9,354	64,061
At 30 June 2015			
Cost	825,752	180,826	1,006,578
Accumulated depreciation	(771,045)	(171,472)	(942,517)
Net book amount	54,707	9,354	64,061
Year ended 30 June 2016			
Opening net book amount	54,707	9,354	64,061
Exchange differences	-	1,284	1,284
Additions	3,580	39,028	42,608
Disposals	-	(1,449)	(1,449)
Depreciation charge	(17,240)	(9,263)	(26,503)
Closing net book value	41,047	38,954	80,001
At 30 June 2016			
Cost	806,532	191,906	998,438
Accumulated depreciation	(765,485)	(152,952)	(918,437)
Net book amount	41,047	38,954	80,001

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 23(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.

	2016	2015
	$	$
Note 7(f) Deferred tax assets		
The balance comprises temporary differences attributable to:		
Amounts recognised in profit or loss		
Provision for employee entitlements, warranties, restructuring and decommissioning	**309,824**	901,925
Provisions for stock obsolescence	**-**	455,255
Depreciation and amortisation	**3,610,202**	6,500,446
Payables not deductible	**1,204,456**	1,147,412
Amortisation of share issue expenses	**1,796**	2,702
Tax losses	**41,892,524**	39,210,886
	47,018,802	48,218,626
Amounts recognised directly in equity		
Share issue expenses	**(906)**	211
	47,017,896	48,218,837
Set-off deferred tax liabilities pursuant to set-off provisions	**(3,294,994)**	(2,823,720)
Net deferred tax assets not recognised	**(43,721,106)**	(45,392,415)
Net deferred tax assets	**1,796**	2,702

	2016	2015
	$	$
Movements:		
Opening at 1 July	**2,702**	2,491
Credited/(charged) to the income statement	**-**	-
(Charged)/credited to equity	**(906)**	211
Closing balance at 30 June	**1,796**	2,702

	2016	2015
	$	$
Deferred tax assets to be recovered after more than 12 months	**983**	1,796
Deferred tax assets to be recovered within 12 months	**813**	906
	1,796	2,702

Note 7(g) Non-current assets - Intangible assets

	Software $
At 30 June 2014	
Cost	24,682
Accumulated amortisation and impairment	(18,088)
Net book amount	6,594
Year ended 30 June 2015	
Opening net book value	6,594
Additions	-
Amortisation charge	(5,906)
Closing net book value	688
At 30 June 2015	
Cost	24,682
Accumulated amortisation and impairment	(23,994)
Net book amount	688
Year ended 30 June 2016	
Opening net book value	688
Additions	-
Amortisation charge*	(688)
Closing net book value	-
At 30 June 2016	
Cost	24,682
Accumulated amortisation and impairment	(24,682)
Net book amount	-

** Amortisation of $688 (2015: $5,906) is included in depreciation and amortisation expense in the income statement.*

(i) Software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 4 years.

(ii) Research and development

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 8 Liabilities
This note provides information about the Company's liabilities.

	2016 $	2015 $
Note 8(a) Current Liabilities - Trade and other payables		
Trade creditors	**1,161,418**	464,041
Derivative financial instruments - forward exchange contracts	**157,909**	-
Other payables	**479,722**	504,632
	1,799,049	968,673

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:

	2016 $	2015 $
Annual leave obligations expected to be settled after 12 months	**17,902**	20,124

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

	2016			2015		
	Current $	**Non-current $**	**Total $**	Current $	Non-current $	Total $
Note 8(b) Provisions						
Employee benefits - long service leave and anniversary leave	**440,837**	**104,728**	**545,565**	425,919	88,110	514,029
Make good provision	**32,000**	**-**	**32,000**	-	25,000	25,000
	472,837	**104,728**	**577,565**	425,919	113,110	539,029

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

	2016 $	2015 $
Current long service leave and anniversary leave obligations expected to be settled after 12 months	**395,099**	381,844

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

	Make good
	$
Carrying amount at start of the year	25,000
Charged to profit or loss	
- additional provisions recognised	7,000
Carrying amount at end of the year	32,000

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 estimate expenditure required to meet these obligations.

	2016	2015
	$	$
Note 8(c) Non-current liabilities - Deferred tax liabilities		
The balance comprising temporary differences attributable to:		
Amounts recognised in profit or loss		
Foreign currency cash balances and loans	**3,063,275**	2,501,423
Accrued income	**231,719**	322,297
	3,294,994	2,823,720
Set off deferred tax liabilities pursuant to set-off provisions	**(3,294,994)**	(2,823,720)
Net deferred tax liabilities	**-**	-

Note 9 Equity
The note provides information about the Company's equity.

	Parent entity		Parent entity	
	2016	2015	**2016**	2015
	Shares	Shares	**$**	$
Note 9(a) Contributed equity				
(i) Share capital				
Ordinary shares				
Fully paid	**170,467,339**	170,467,339	**231,752,170**	231,753,076

(ii) 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**

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

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

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

(iv) Options
Information relating to the Silex Systems Limited Employee Share Option Plan (No. 1), including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 19.

(v) Capital risk management
The Company's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders 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.

	2016 $	2015 $
Note 9(b) Reserves		
Foreign currency translation reserve	**(1,462,411)**	(1,411,230)
Revaluation - Available-for-sale financial assets	**(283,451)**	-
Transactions with non-controlling interests	**(2,891,856)**	(2,891,856)
Share based payments reserve	**14,627,214**	14,599,519
	9,989,496	10,296,433

	2016 $	2015 $
Movements		
Foreign currency translation reserve		
Balance at the beginning of the financial year	**(1,411,230)**	(1,686,977)
Net exchange differences on translation of foreign controlled entity	**(51,181)**	275,747
Balance at the end of the financial year	**(1,462,411)**	(1,411,230)

	2016 $	2015 $
Revaluation - Available-for-sale financial assets		
Balance at the beginning of the financial year	**-**	-
Differences on revaluation	**(283,451)**	-
Balance at the end of the financial year	**(283,451)**	-

	2016	2015
	$	$
Transactions with non-controlling interests		
Balance at the beginning of the financial year	**(2,891,856)**	(2,891,856)
Balance at the end of the financial year	**(2,891,856)**	(2,891,856)

	2016	2015
	$	$
Share based payments reserve		
Balance at the beginning of the financial year	**14,599,519**	14,461,644
Share based payment expense	**27,695**	222,737
Transfer to share capital (shares issued)	**-**	(84,862)
Balance at the end of the financial year	**14,627,214**	14,599,519

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 23(c). The reserve is recognised in profit and loss when the net investment is disposed of.

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

(iii) Transactions with non-controlling interests
This reserve is used to record the differences described in note 23(b)(ii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

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

	2016	2015
	$	$
Note 9(c) Accumulated losses		
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 10 Cash Flow information

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

	2016 $	2015 $
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

	2016 $	2015 $
Acquisition of Available-for-sale financial assets from License Fee receivable	**1,876,807**	-

Note 11 Critical accounting estimates and judgements

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

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

Note 12 Financial risk management

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

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

(a) Derivatives

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

The Company's policy is to hedge a proportion of its anticipated cash flows in USD. At year end, the Company held forward exchange contracts totalling US$3,975,000 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 Board monitors the Company's hedging strategy on a continuing basis. The fair value of derivative contracts outstanding at year end totals $157,909 (2015: $nil) and is recorded in Current liabilities – trade and other payables at year end.

(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:

	2016	2015
	AUD	AUD
Cash and cash equivalents	**15,878**	245,553
Trade payables	**696,570**	-
Forward exchange contracts - buy foreign currency	**5,359,093**	-

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	
	2016	2015	**2016**	2015
	$	$	**$**	$
AUD/USD - increase by 15%	**(610,226)**	(32,029)	**(610,226)**	(32,029)
AUD/USD - decrease by 15%	**825,600**	43,333	**825,600**	43,333

In March 2016, the Company received shares in IQE Plc, a UK based company, resulting from the License and Assignment Agreement signed in September 2015. IQE's shares are listed on the London Stock Exchange (GBP currency). The impact of an increase or decrease in the AUD/GBP (provided it is not deemed an impairment) would not impact post tax profits as it is accounted for in other comprehensive income. The impact of a 15% increase in the AUD/GBP would decrease other components of equity by $211,859 (2015: $nil) and a 15% decrease in the AUD/GBP would increase other components of equity by $286,633 (2015: $nil).

(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, bank bills, etc.

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 2016		30 June 2015	
	Weighted average interest rate %	**Balance $**	Weighted average interest rate %	Balance $
Cash and cash equivalents	**2.65%**	**1,477,898**	1.88%	938,818

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	
	2016	2015	**2016**	2015
	$	$	**$**	$
Interest rates - increase by 1.00%	**15,977**	21,758	**15,977**	21,758
Interest rates - decrease by 1.00%	**(15,977)**	(21,758)	**(15,977)**	(21,758)

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

The impact of an increase or decrease in the IQE share price (provided it is not deemed an impairment) would not impact post tax profits as it is accounted for in other comprehensive income. The impact of a 10% increase in IQE's share price would increase other components of equity by $162,425 (2015: $nil) and a 10% decrease in IQE's share price would reduce other components of equity by $162,425 (2015: $nil). The impact of a 20% increase in IQE's share price would increase other components of equity by $324,850 (2015: $nil) and a 20% decrease in IQE's share price would reduce other components of equity by $324,850 (2015: $nil).

(b) Credit risk
The Company has a concentration of credit risk with its main receipts coming from GE-Hitachi Global Laser Enrichment LLC ('GLE' – the venture owned by GE, Hitachi and Cameco to commercialise the SILEX technology in the US), IQE Plc (in relation to the licensing of Translucent's unique semiconductor technology), banks (interest income) and government (government grants and Research and development tax Incentive). The Company has policies in place to ensure that sales of products and services are made to customers 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).

	2016	2015
	$	$
Trade receivables *		
Group 1	**-**	15,924
Group 2	**97,561**	46,193
Group 3	**-**	-
Total trade receivables	**97,561**	62,117

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

Trade receivables includes trade receivables from continuing operations $nil (2015: $1,790) plus trade receivables from discontinued operations $97,561 (2015: $60,327).

	2016	2015
	$	$
Cash and cash equivalents and held to maturity investments		
ANZ Banking Group Limited	**18,296,401**	17,538,134
National Australia Bank	**11,300,000**	29,050,000
Bendigo and Adelaide Bank Limited	**15,250,000**	-
Bankwest	**-**	1,500,000
Suncorp Bank	**-**	2,000,000
Bank of Queensland	**6,400,000**	5,000,000
Bank of America	**35,671**	73,092
Other	**2**	2
	51,282,074	55,161,228

(c) 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:

	2016	2015
	$	$
Floating rate		
- Expiring within one year (documentary credit facility and visa facility)	**200,000**	300,000
	200,000	300,000

The visa facility and documentary credit 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 2016	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	1,944,959	-	-	-	-	1,944,959	1,944,959
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,944,959	-	-	-	-	1,944,959	1,944,959
Derivatives							
Forward foreign exchange contracts	125,135	32,774	-	-	-	157,909	157,909
	125,135	32,774	-	-	-	157,909	157,909

At 30 June 2015	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	1,905,478	-	-	-	-	1,905,478	1,905,478
Fixed rate	-	-	-	-	-	-	-
Total non-derivatives	1,905,478	-	-	-	-	1,905,478	1,905,478

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

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

Note 13 Discontinued operations and Assets held for sale
In accordance with the continued implementation of the outcome 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 3)	**2,153,951**	183,013
Other income (note 4)	**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)

	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
	$	$
Trade and other payables	**(303,819)**	(936,805)
Provisions	**(374,560)**	(2,120,217)
Total Liabilities associated with discontinued operations	**(678,379)**	(3,057,022)

Note 14 Interests in other entities

(a) Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 23(b).

			Equity holding	
	Country of	Class of	**2016**	2015
Name of entity	incorporation	shares	**%**	%
Translucent Inc *	United States of America	Ordinary	**99.7%**	99.7%
		Preference	**100.0%**	100.0%
		Total	**99.9%**	99.9%
Solar Systems Pty Ltd **	Australia	Ordinary	**100.0%**	100.0%
		Total	**100.0%**	100.0%
Solar Systems (Mildura) Pty Ltd) ***	Australia	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 Solar Pty Ltd	Australia	Ordinary	**100.0%**	100.0%
		Total	**100.0%**	100.0%

** Option holders have options over ordinary shares in Translucent Inc. On a fully-diluted basis, in total, Silex Systems Limited owns 99.4% of Translucent (2015: 98.8%).*
*** Solar Systems Pty Ltd changed its name to A.C.N. 142 019 583 Pty Ltd in July 2016.*
**** Solar Systems (Mildura) Pty Ltd changed its name to A.C.N. 137 638 021 Pty Ltd in July 2016.*

(i) Transactions with non-controlling interests

These were no transactions with non-controlling interests in the current or prior years.

(ii) Derecognition of non-controlling interests

Following the closure of the ChronoLogic business in September 2014, the non-controlling interest in ChronoLogic was derecognised for accounting purposes in the prior year and an adjustment of $0.8m was processed on consolidation to eliminate the accumulated losses attributable to the minority shareholding.

Note 15 Contingent 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). The Term Sheet sets out details 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). 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.

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$1m 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.

	2016	2015
	$	$
Note 16 Commitments for expenditure and guarantees		
(a) Capital commitments		
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Property, plant and equipment	**-**	-
(b) Operating leases		
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Not later than one year	**357,429**	1,398,890
Later than one year but not later than five years	**128,144**	2,856,080
	485,573	4,254,970

(c) Commitments in accordance with Purchase and Sale Agreement Term Sheet

Under the Term Sheet (refer note 15 above), Silex is required to reimburse the Sellers for a further US$2,100,000 for expenditure for the 6 months to 31 December 2016.

(d) Guarantees entered into by the Company

The Company has provided guarantees totalling $49,844 (2015: $320,804) for rent for various premises.

Note 17 Events occurring after reporting date

Between 30 June 2016 and 22 September 2016, 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 approximately $1,160,000 since 30 June 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 30 June 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 this report.

Note 18 Related party transactions
(a) Subsidiaries
Interests in subsidiaries are set out in note 14(a).

(b) Key management personnel

	2016	2015
	$	$
Short-term employee benefits	1,400,883	1,943,056
Post-employment benefits	115,504	134,337
Long-term benefits	9,008	3,854
Termination benefits	229,284	-
Share-based payments	27,695	263,306
	1,782,374	2,344,553

(c) Transactions with related parties
The following transactions occurred with related parties:

	2016	2015
	$	$
Contributions to superannuation funds on behalf of employees	340,774	690,185

Note 19 Share-based payments
(a) Silex Systems Limited Employee Share Option Plan (No. 1)
The Employee Share Option Plan (No. 1) was terminated by a resolution of the Silex Board in accordance with the plan rules on 24 October 2013.

Under the rules of the terminated plan, all full-time and part-time staff and executive directors of the consolidated entity were eligible to participate in the plan with options granted for no consideration. Options were granted for a five year period and were exercisable after three years of the date of the grant (after two years of the date of grant for options issued prior to 16 March 2012). The options 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 five trading days before the options are granted plus five cents. Amounts received on the exercise of options are recognised as share capital.

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

Grant date	Expiry date	Exercise price cents	Balance at start of year Number	Issued during the year Number	Lapsed/ forfeited during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at the end of the year Number
Consolidated and parent entity – 2016								
30/07/2010	29/07/2015	465	140,000	-	(140,000)	-	-	-
15/10/2010	14/10/2015	528	165,000	-	(165,000)	-	-	-
5/07/2011	4/07/2016	292	245,000	-	(145,000)	-	100,000	100,000
			550,000	-	(450,000)	-	100,000	100,000
Weighted average exercise price			$4.07	-	$4.32	-	$2.92	$2.92

Grant date	Expiry date	Exercise price cents	Balance at start of year Number	Issued during the year Number	Lapsed/ forfeited during the year Number	Exercised during the year Number	Balance at end of the year Number	Exercisable at the end of the year Number
Consolidated and parent entity – 2015								
11/01/2010	10/01/2015	613	130,000	-	(130,000)	-	-	-
27/05/2010	26/05/2015	524	565,000	-	(565,000)	-	-	-
30/07/2010	29/07/2015	465	540,000	-	(400,000)	-	140,000	-
15/10/2010	14/10/2015	528	165,000	-	-	-	165,000	-
5/07/2011	4/07/2016	292	325,000	-	(80,000)	-	245,000	245,000
16/03/2012	15/03/2017	361	25,000	-	(25,000)	-	-	-
			1,750,000	-	(1,200,000)	-	550,000	245,000
Weighted average exercise price			$4.67	-	$4.95	-	$4.07	$2.92

The market price of shares under option at 30 June 2016 was $0.31 (2015: $0.46).

No options were exercised during the year ended 30 June 2016 or during the year ended 30 June 2015.

The weighted average remaining contractual life of share options outstanding at the end of the period was 0.0 years (2015: 0.6 years).

Fair value of options granted
No options were granted during the year ended 30 June 2016 or during the year ended 30 June 2015.

(b) Options to directors
No options were issued to directors during the year ended 30 June 2016 or during the year ended 30 June 2015.

(c) Translucent Inc Stock Incentive Plan
All full-time and part-time staff of Translucent Inc are eligible to participate in the plan. In addition, consultants are eligible to participate in the plan.

Options are granted under the plan for no consideration. Options are granted for a ten year period and become exercisable at various stages over the five years from 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 fair value of the shares at the time of granting of the options. Amounts received on the exercise of options are recognised as share capital.

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

Grant date	Expiry date	Exercise price US cents	Balance at start of year	Issued during the year	Lapsed/ forfeited during the year	Exercised during the year	Balance at end of the year	Exercisable at the end of the year
Translucent Inc – 2016								
13/04/2006	13/04/2016	6.4	644,404	-	(644,404)	-	-	-
4/10/2006	4/10/2016	6.4	644,404	-	-	-	644,404	644,404
15/05/2008	15/05/2018	10.8	15,000	-	(15,000)	-	-	-
			1,303,808	-	(659,404)	-	644,404	644,404
Weighted average exercise price - US cents			6.451	-	6.500	-	6.400	6.400

Grant date	Expiry date	Exercise price US cents	Balance at start of year	Issued during the year	Lapsed/ forfeited during the year	Exercised during the year	Balance at end of the year	Exercisable at the end of the year
Translucent Inc – 2015								
13/04/2006	13/04/2016	6.4	644,404	-	-	-	644,404	644,404
4/10/2006	4/10/2016	6.4	644,404	-	-	-	644,404	644,404
15/05/2008	15/05/2018	10.8	15,000	-	-	-	15,000	15,000
			1,303,808	-	-	-	1,303,808	1,303,808
Weighted average exercise price - US cents			6.451	-	-	-	6.451	6.451

No options were granted during the year or the previous year.

(d) Shares to employees
No shares were issued in the current year. In the prior year, Silex issued 73,037 shares at $0.90 to employees in July 2014 and 26,568 shares at $0.72 to employees in August 2014.

(e) Long-term incentive shares/rights to CEO/Managing Director
At the 2013 Annual General Meeting, shareholders approved a long-term incentive for Dr M P Goldsworthy in the form of restricted Silex ordinary shares up to a maximum of 62.5% of his FY2014 total fixed remuneration package. The actual LTI payable is subject to performance criteria comprising Total Shareholder Return over a three year performance period ending 30 June 2016, and a share price hurdle of $5.40 with the shares to be issued in November 2016. As the TSR performance criteria was not met as at the end of the three year performance period, no amount is payable under the FY2014 long-term incentive.

At the 2012 Annual General Meeting, shareholders approved a long-term incentive for Dr M P Goldsworthy in the form of restricted Silex ordinary shares up to a maximum of 125% of his FY2013 total fixed remuneration package. The actual LTI payable was subject to performance criteria comprising Total Shareholder Return (TSR) over a three year performance period ending 30 June 2015 and a share price hurdle of $5.40 with the shares to be issued in November 2015. As the TSR performance criteria was not met as at the end of the three year performance period, no amount is payable under the FY2013 long-term incentive.

(f) 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:

	2016	2015
	$	$
Options issued	**-**	96,371
Shares to be issued	**27,695**	128,943
Shares issued	**-**	(2,577)
	27,695	222,737

Note 20 Remuneration of auditors

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

	2016 $	2015 $
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	**105,000**	145,500
Total remuneration for audit services	**105,000**	145,500
Other assurance services		
PricewaterhouseCoopers Australian firm		
Audit of government grants	**-**	5,000
Total remuneration for other assurance services	**-**	5,000
Total remuneration for assurance services	**105,000**	150,500
(b) Other services		
Corporate Services	**-**	20,400
Total remuneration for other services	**-**	20,400
Total remuneration	**105,000**	170,900

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. There were no non-assurance related assignments during the year.

	2016 Cents	2015 Cents
Note 21 Earnings per share		
(a) Basic earnings per share		
From continuing operations attributable to the ordinary equity holders of the Company	**(2.76)**	(1.34)
From discontinued operations	**0.77**	(19.75)
Total basic earnings per share attributable to the ordinary equity holders of the Company	**(1.99)**	(21.09)

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		
From continuing operations attributable to the ordinary equity holders of the Company	**(2.76)**	(1.34)
From discontinued operations	**0.77**	(19.75)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	**(1.99)**	(21.09)

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.

	2016 $	2015 $
(c) Reconciliation of earnings used in calculating earnings per share		
Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share		
From continuing operations	**(4,700,759)**	(2,284,993)
From discontinued operations	**1,303,871**	(33,659,803)
	(3,396,888)	(35,944,796)
Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share		
From continuing operations	**(4,700,759)**	(2,284,993)
From discontinued operations	**1,303,871**	(33,659,803)
	(3,396,888)	(35,944,796)

	2016 Shares	2015 Shares
(d) Weighted average number of shares used in the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**170,467,339**	170,461,553
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**170,467,339**	170,461,553

(e) Information concerning the classification of securities
In the current year and prior year, options were not included in the calculation of diluted earnings per share because they were antidilutive.

In the current year and prior year, rights to shares 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 19.

Note 22 Parent entity financial information
(a) Summary financial information
The individual financial statements for the parent entity show the following aggregate amounts:

	2016	2015
	$	$
Balance Sheet		
Current assets	**52,915,043**	55,680,058
Total assets	**54,756,868**	60,158,104
Current liabilities	**2,271,886**	1,394,592
Total liabilities	**2,376,614**	1,507,702
Net assets	**52,380,254**	58,650,402
Shareholders' equity		
Issued capital	**231,752,170**	231,753,076
Reserves		
Share based payments	**14,432,340**	14,404,645
Accumulated losses	**(193,804,256)**	(187,507,319)
Total equity	**52,380,254**	58,650,402
Net (loss) for the period	**(6,296,937)**	(31,096,071)
Total comprehensive income	**(6,296,937)**	(31,096,071)

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 $49,844 (2015: $96,289) bank guarantee for the rent of its corporate office premises.

(c) Contingent liabilities of the parent entity
With respect to the Non-Binding Purchase and Sale Agreement (PSA) Term Sheet with signed by Silex with GENE Holdings (GENE), GE-Hitachi Nuclear Energy Americas LLC (GEHA) and General Electric Company (GE) and as disclosed in note 15 (refer note 15 for further information), in the event a PSA is executed, Silex is required to make additional funding payments to the Sellers, 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$1m in total. At the current point in time, the timing of any outflow of funds is uncertain and subject to Silex signing a PSA. There were no contingent liabilities at 30 June 2015.

(d) Contractual commitments for the acquisition of property, plant or equipment
As at the 30 June 2016 (and 30 June 2015), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

(e) Basis of preparation
This parent entity financial information has been prepared on the same basis as the consolidated financial statements except as set out below:

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

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

Note 23 Summary of significant accounting policies
This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements to the extent that they have not already been disclosed in the other notes above. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Silex Systems Limited and its subsidiaries.

(a) Basis of preparation

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

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

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

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

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires Management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 11.

New and amended standards adopted by the Company
Silex Systems Limited has applied no standards and amendments for the first time for their annual reporting period commencing 1 July 2015.

New standards and interpretations not yet adopted
Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods 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.

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 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 2016 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 or the consolidated entity.

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 or substantively 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 so as 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 so as 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 16). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(f) Impairment of assets

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

(g) Investments and other financial assets

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

(i) Loans and receivables

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

(ii) Available-for-sale financial assets

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

(iii) Impairment of Investments and other financial assets

The Company assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. The subsidiaries have continued their activities, mostly research and development and start-up activities and as such remain in loss making positions. Hence, due to the nature of these businesses, a provision against the value of the investment in the subsidiaries has been raised.

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

(h) Measurement and fair value estimation

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

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

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

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

(i) Employee benefits

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

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

(ii) Long service leave/anniversary leave

The liability for long service leave/anniversary 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 Share Option Plan (No. 1) and the Silex Systems Limited Performance Rights Plan. Ownership-based remuneration has also provided to employees via the Translucent Inc Employee Option Plan. Information relating to these schemes is set out in note 19.

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

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

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

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

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

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

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

(v) Termination benefits

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

(j) Goods and Services Tax (GST)

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

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

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

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

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

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

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

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

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

In the directors' opinion:

(a) the financial statements and notes set out on pages 28 to 67 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 2016 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 23(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

Dr M P Goldsworthy
CEO/MD

Mr C D Wilks
Director

Sydney

22 September 2016

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

Report on the financial report

We have audited the accompanying financial report of Silex Systems Limited (the company), which comprises the consolidated balance sheet as at 30 June 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 year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Silex Systems Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility 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 the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 23, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Auditor's opinion

In our opinion:

(a) the financial report of Silex Systems Limited is in accordance with the *Corporations Act 2001,* including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 23.

Report on the Remuneration Report

We have audited the remuneration report included in pages 13 to 23 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion

In our opinion, the remuneration report of Silex Systems Limited for the year ended 30 June 2016 complies with section 300A of the *Corporations Act 2001*.

Pricewaterhouse Coopers

PricewaterhouseCoopers

S. Hump

Stephen Humphries
Partner

Sydney
22 September 2016

Shareholders' information

1. Information relating to shareholders as at 12 September 2016
(a) Distribution schedule

1-1,000	2,057
1,001-5,000	2,557
5,001-10,000	843
10,001-100,000	1,124
100,001 and over	141
Total number of holders of each class of security	6,722

Voting rights - on a show of hands	
- on a poll	
Percentage of total holding held by the largest 20 holders	55.40%
Number of total holding less than a marketable parcel of shares	2,767

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030
Prudential Plc (M&G Group)	12,786,077

(b) Names of Twenty Largest Holders as at 12 September 2016

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.48%
HSBC Custody Nominees (Australia) Limited	20,511,723	12.03%
Majenta Holdings Pty Ltd	5,703,923	3.35%
Mr Paul Cozzi	4,800,000	2.82%
J P Morgan Nominees Australia Limited	4,319,093	2.53%
Polly Pty Ltd	4,073,863	2.39%
Citicorp Nominees Pty Limited	3,529,036	2.07%
National Nominees Limited	3,079,351	1.81%
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%
Felson Holdings Pty Ltd	2,251,000	1.32%
Quintal Pty Ltd	2,002,952	1.17%
Sporran Lean Pty Ltd	1,650,000	0.97%
Old Digger Pty Ltd	1,145,000	0.67%
Quadrangle Nominees Limited	847,245	0.50%
Mithena Holdings Pty Ltd	817,139	0.48%
Mr Xiangyang Wu	685,655	0.40%
Mr Luca Rotter + Ms Jane Louise Abbott	655,000	0.38%
Hillboi Nominees Pty Ltd	651,295	0.38%
	94,432,515	55.40%

2. Interest of directors in shares as at 12 September 2016

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

3. Securities subject to voluntary escrow as at 12 September 2016

As at 12 September 2016, no securities were subject to voluntary escrow.

4. Unquoted equity securities as at 12 September 2016

	Number on issue	Number of holders
Options issued to take up ordinary shares *	1,469,242	2

** These are options to Dr M P Goldsworthy (1,102,207) and Mr C D Wilks (367,035).*