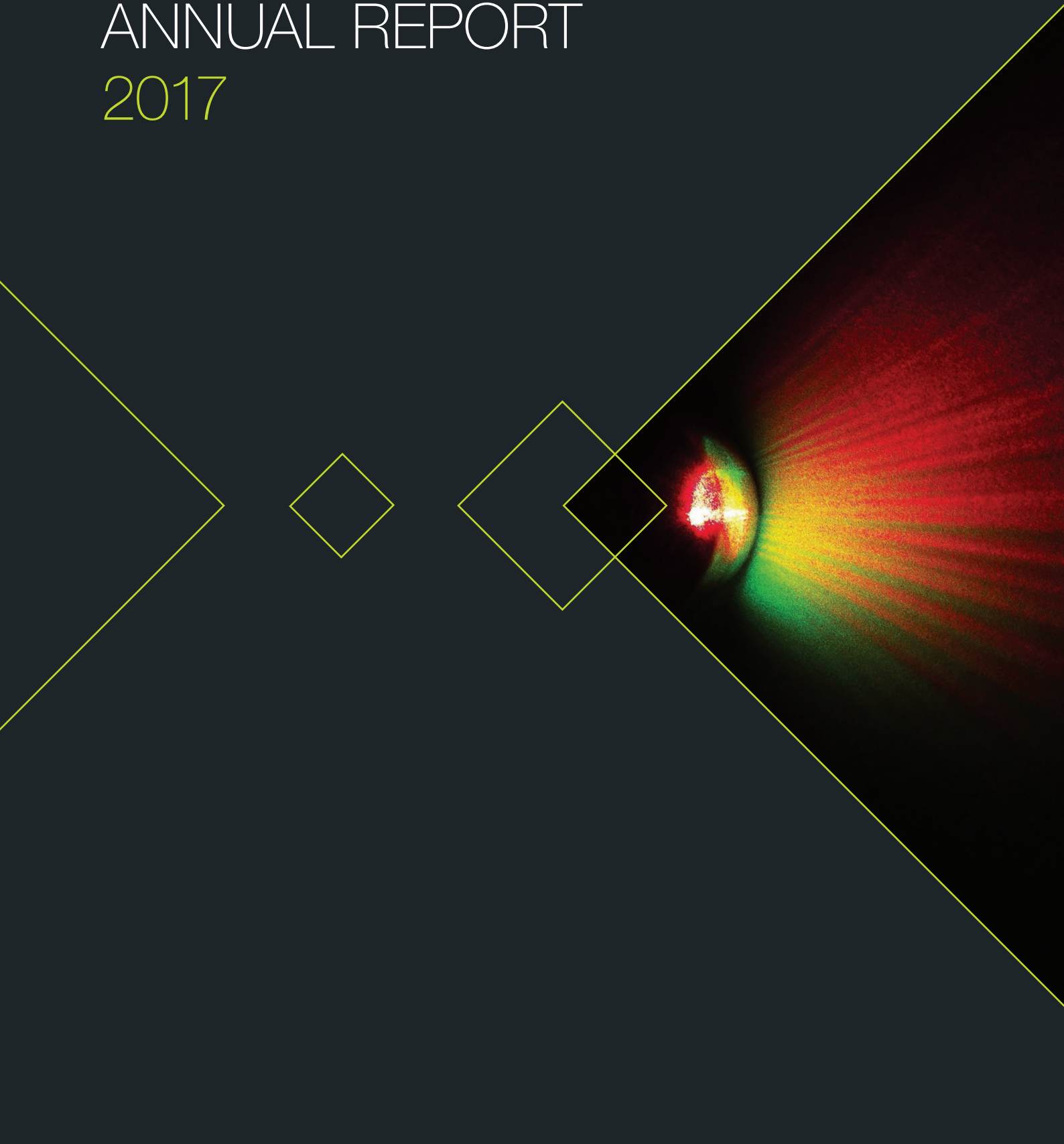




Silex

ANNUAL REPORT
2017



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 scale-up stage and plans for commercial deployment remain speculative 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 subject to technology and market risks.

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

Some risk factors that could affect future results and commercial prospects include, but are not limited to: the outcome of the GLE restructure; 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; 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; results from IQE's commercialisation program and the demand for cREO™ products; and the outcomes of various commercialisation strategies undertaken by the Company and/or its Licensees GLE and IQE.

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CHAIR'S REPORT



Dr Lisa McIntyre
Chair

“Our goal continues to be squarely focussed on positioning ourselves to participate in the forecasted recovery of the global market for nuclear fuel expected from the mid-2020’s.”

Dear Fellow Shareholder,

During the year ended 30 June 2017 we made significant progress with the execution of our fundamental strategy - to protect and advance our core asset, the SILEX laser based uranium enrichment technology. Our goal continues to be squarely focussed on positioning ourselves to participate in the forecasted recovery of the global market for nuclear fuel expected from the mid-2020's. This has been the key driver of our efforts to restructure the exclusive Licensee of the SILEX technology, GE-Hitachi Global Laser Enrichment LLC (GLE) and includes the possibility of Silex becoming a majority shareholder in GLE.

The restructure of GLE has been pursued in a depressed market for nuclear fuel, which has not only hampered our attempts to secure new investors for GLE, but also continued to have a negative impact on our share price. Our current cash reserves of ~\$40 million is equivalent to ~\$0.23 per share, which we believe attributes little value to our two world-class technologies, the SILEX technology and Translucent's cREO™ technology. Despite these difficult conditions, Silex continues to push forward with activities to restructure GLE and to support the commercialisation of the SILEX technology.

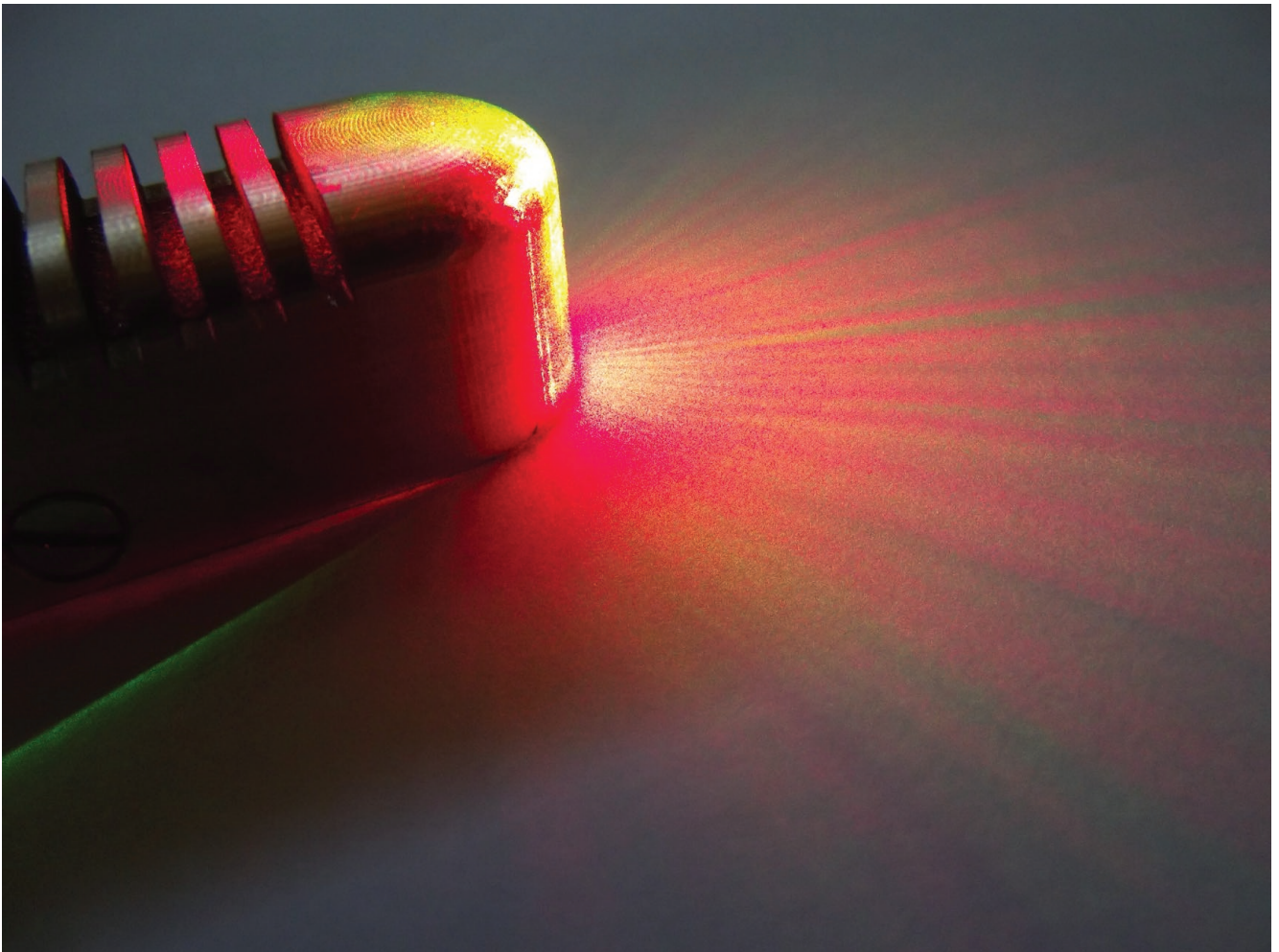
Meanwhile, IQE Plc continues to advance the product development and commercialisation program for our subsidiary Translucent's cREO™ technology, with progress to date meeting expectations. I will comment further on this below.

STRATEGY

The execution of our business strategy has included several parallel streams of activities and has resulted in a very busy time for my fellow directors and the Silex team. We have increased our activities in the US, the target market for deployment of the SILEX technology and continue to evaluate new opportunities to participate in the nuclear fuel cycle. We continue to engage extensively with the many stakeholders in GLE and Silex with respect to the SILEX technology. Here in Australia, we work hard to ensure the retention of our talented team and maintaining our Sydney facility as a centre of innovation whilst focussing on effective cost management to ensure the most efficient use of cash reserves. All of these efforts have been underpinned by our ongoing attention to long-term value creation objectives, risk management and strong governance.

CORPORATE GOVERNANCE

In recent years, we have restructured and reduced the size of our Board to reflect the changing requirements of the Company. The Board remains committed to ensuring we have a diverse, experienced and competent mix of directors on the Board with complementary skills and industry knowledge to meet the Company's evolving needs. Robert Lee joined the Board on 1 July 2015, and will stand for re-election by shareholders at our 2017 Annual General Meeting. Robert is an astute Company director who brings a great deal of financial, management and governance acumen to the Silex Board.



With regard to remuneration, as a result of the GLE restructure taking longer than anticipated, the People & Remuneration Committee made some difficult decisions with respect to the remuneration of the Company's KMP. No remuneration increases were awarded in FY2017 for our CEO/MD or our Board and our Board continues to not receive fees for Committee participation or for extraordinary time contributed to the Company's activities. Being mindful of the difficulties faced by the Company, our CEO/MD forfeited his eligibility to receive a Short-Term Incentive (STI) for FY2017. Our CFO/ Company Secretary also forfeited 90% of her STI for FY2017.

THE YEAR AHEAD

Despite the current challenges that exist in the market for nuclear fuel, we continue to push forward with activities to support our Licensee, GLE with the commercialisation of our unique and potentially disruptive SILEX technology. As announced on 1 September 2017, this may involve Silex taking a majority interest in GLE. We are excited by this prospect and the opportunity to have greater participation in the technology commercialisation program in the US. We continue to believe the SILEX technology is the best path forward to re-build long-term value for our shareholders and we intend to be well positioned to participate in the inevitable recovery of the global nuclear industry that is forecast over the medium term.

We also remain pleased with progress made in IQE's product development program during the 30-month option period, after which time IQE may elect to acquire Translucent's cREO™ technology. Should IQE proceed with this acquisition, a further payment of US\$5 million will be payable. In light of current progress, IQE has determined an optimal route to commercialisation within a 2 to 3-year timeframe, after which time a royalty of up to 6% may be payable on IQE's products that embody the cREO™ technology.

On behalf of the Silex Board and Management, I would like to thank you, my fellow shareholders for your interest and ongoing support of Silex. I look forward to updating you again at our Annual General Meeting in November.

Dr Lisa McIntyre

Chair

25 September 2017

CEO'S REPORT



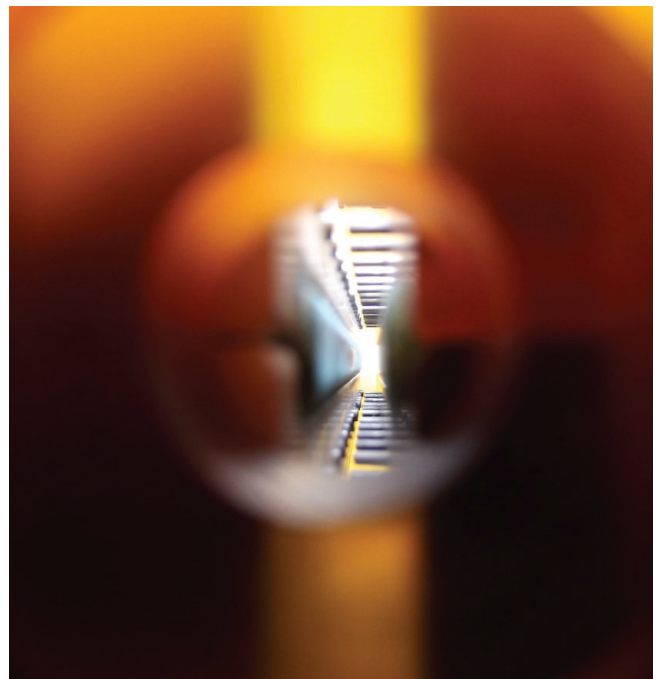
Dr Michael Goldsworthy
CEO/Managing Director

“We have been encouraged by recent positive developments in the nuclear industry and the extensive nuclear build programs unfolding in China, Russia, India and other parts of the world.”

Your company Silex Systems (Silex), is today well placed to leverage over two decades of world-leading innovation, resulting in the emergence of technological breakthroughs in two key global industries:

- i. The nuclear fuel industry** – with the unique third generation SILEX laser enrichment technology – targeting commercialisation through a landmark agreement between exclusive Licensee GE-Hitachi Global Laser Enrichment LLC (GLE) and the US Department of Energy (DOE) to produce natural grade uranium from DOE tails inventories for sale into the global uranium market, commencing in the mid 2020's; and
- ii. The semiconductor industry** – with the unique 'cREO™' technology developed by US-based subsidiary Translucent Inc – targeting commercialisation through an exclusive license agreement with UK-based IQE Plc, a world leading producer of advanced semiconductor products for next-generation digital electronics and wireless communications devices.

Over recent years Silex has been caught up in difficult market challenges, particularly in relation to the nuclear fuel markets which are the target of our core asset – the SILEX technology. This has resulted in significant delays to the commercialisation program causing erosion in our share price and dwindling shareholder value. It is important to note that this situation is driven by external factors - principally the downturn in the nuclear industry precipitated by the shutdown of the entire Japanese nuclear fleet and premature retirements of reactor units in several other countries. We firmly believe that this situation will correct over the medium term, as the expansion of nuclear capacity gathers momentum around the world and the current market difficulties give way to a new era of innovation in safe, clean and efficient nuclear technology.





We are therefore pleased to be able to report to our shareholders that our efforts to lead the restructure of GLE as disclosed in recent announcements, have provided us with new opportunities to become more directly involved in the technology commercialisation program and in GLE's business development path. To this end, Silex and GE-Hitachi Nuclear Energy (GEH) recently signed an extension to the term sheet originally signed in April 2016, after GEH disclosed at that time, its intention to exit GLE due to changes in its business priorities. The term sheet extension includes several amendments which provide Silex and GEH a more efficient and clearer path to finalizing negotiations on a full and binding Purchase and Sale Agreement (PSA) for the acquisition of GEH's 76% interest in GLE.

Whilst Management continues to lead the process to attract new investors to GLE, the Silex Board is also considering the possibility of the Company taking a majority interest in GLE through the restructure process. This would facilitate a more active role in the further development and de-risking of the technology, greater participation in GLE's business development activities, and potentially a better return for shareholders in the medium to long term. That said, the path to majority ownership will be dependent on obtaining relevant US Government approvals, which are not assured and may take up to 12 months to complete. We look forward to updating shareholders as these options materialise.

In November 2016, we announced the signing of an agreement between GLE and the US DOE, under which GLE is entitled to purchase around 300,000 metric tons of depleted tails stockpiled at DOE sites in Paducah, Kentucky and Portsmouth, Ohio. Under this Agreement, GLE plans to construct the world's first commercial laser enrichment

plant with the SILEX technology in Paducah, to re-enrich the tails inventories into natural grade uranium, for sale into the global uranium market. We continue to view the Paducah commercial opportunity as an optimal path to market for GLE and the SILEX technology.

The long-term fundamentals for the SILEX technology and GLE will be underpinned by the anticipated recovery of the global markets for natural and enriched uranium. Key contributing factors to the expected recovery of the nuclear fuel markets include the restart of nuclear reactors in Japan – now starting to gather pace, and the continued growth in global nuclear energy capacity. We have been encouraged by recent positive developments in the nuclear industry and the extensive nuclear build programs unfolding in China, Russia, India and other parts of the world. We therefore remain committed to finalising the GLE restructure and supporting the commercialisation of the SILEX technology, believing this is the best path forward to rebuild value for our shareholders.

We look forward to sharing our results with you and providing a further update at the Annual General Meeting in November.

Dr Michael Goldsworthy
CEO/Managing Director

BUSINESS OVERVIEW



BUSINESS FACTS

PLATFORM

Nuclear Fuel for Clean Electricity Generation

LOCATIONS

Technology Development

Silex – Lucas Heights, NSW, Australia

GLE – Wilmington, North Carolina, USA

Corporate Office

Sydney, NSW, Australia

THE SILEX LASER URANIUM ENRICHMENT TECHNOLOGY

BUSINESS DESCRIPTION

Silex invented and initially developed the 'SILEX' laser-based uranium enrichment technology in Sydney during the 1990's. The technology was licensed exclusively in 2006 to GE-Hitachi Global Laser Enrichment LLC ('GLE'), a business venture currently comprising GE (51%), Hitachi (25%) and Cameco (24%). Silex and GLE jointly continue to commercialise the technology for potential deployment in the USA. The target markets are the global nuclear fuel markets for natural and enriched uranium, worth several billions of dollars annually.

BACKGROUND

The SILEX technology was invented by Silex Systems scientists Dr Michael Goldsworthy and Dr Horst Struve in the mid 1990's. In order to facilitate the potential commercial deployment of the technology in the United States, an Agreement for Cooperation between the governments of the United States and Australia was signed in May 2000.

In June 2001, the technology was officially Classified by the United States and Australian governments, bringing the project formally under the strict security and regulatory protocols of each country.

In 2006, Silex signed a Technology Commercialisation and License agreement with General Electric Company (GE) to develop and commercialise the technology to enrich uranium for use in nuclear power reactors around the world. Since 2008, the project has been managed by GE subsidiary GLE.

URANIUM ENRICHMENT

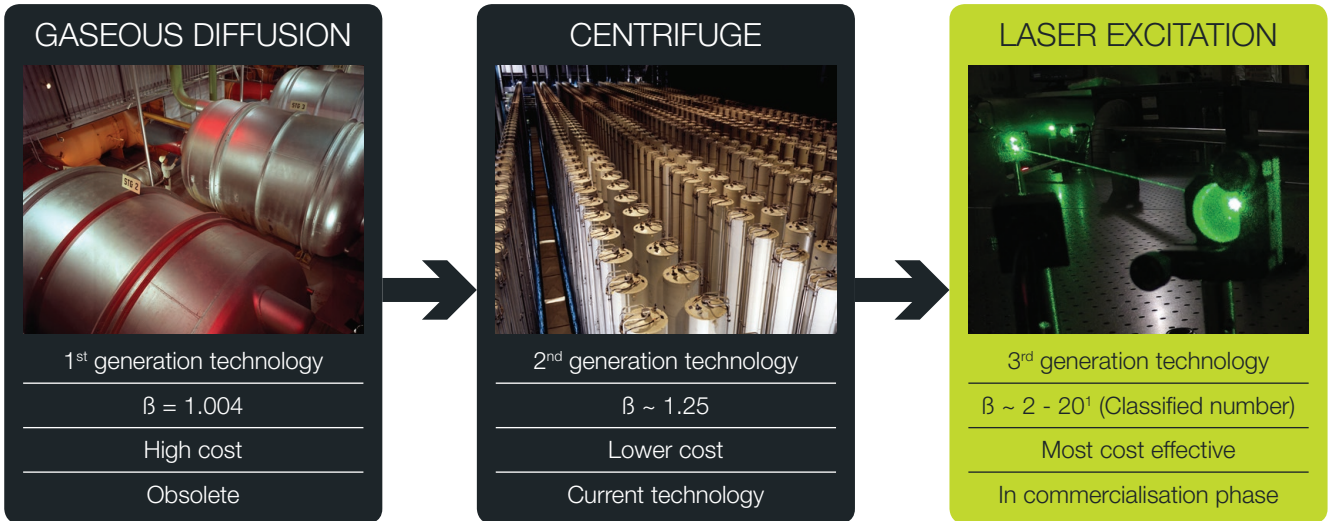
Naturally occurring uranium must be enriched before it can be used as fuel in a nuclear power reactor. Enrichment is a technically difficult process and constitutes a major component of nuclear fuel costs accounting for around one third of the cost of nuclear fuel and up to 5% of the total cost of the electricity generated at current prices.

Uranium enrichment involves increasing the atomic concentration of the 'active' U^{235} isotope from 0.7% in natural uranium to approximately 5% required for reactor fuel. GLE and Silex are jointly developing the SILEX third generation laser enrichment technology:

- Separation of Isotopes by Laser EXcitation (SILEX)
- Highly selective excitation of $^{235}UF_6$ to separate isotopes

The two methods of uranium enrichment used to date have been the now obsolete Gas Diffusion (first generation) and Gas Centrifuge (second generation). Silex's third generation laser-based process provides much higher enrichment process efficiency compared to these earlier methods, potentially offering significantly lower overall costs.

URANIUM ENRICHMENT TECHNOLOGY



1. β is the process efficiency

THE NUCLEAR FUEL PRODUCTION

The SILEX technology can be utilised in 2 steps of the Nuclear Fuel Cycle to produce:

1. natural grade uranium via re-enrichment of tails inventories; and
2. enriched uranium for use as fuel in nuclear power reactors.

THE SILEX TECHNOLOGY

The SILEX technology is a unique laser-based process that has the potential to economically separate uranium isotopes as well as several other elements. It has a number of advantages over other uranium enrichment processes including:

- Inherently higher efficiency resulting in lower costs;
- Smaller environmental footprint than centrifuge and diffusion plants;
- Greater flexibility in producing advanced fuels for next generation small modular reactors (SMR's); and
- Anticipated to have the lowest capital costs of all enrichment technologies.

Significantly, the SILEX technology is the only third generation laser-based uranium enrichment technology under commercial development in the world today.

THE SILEX TECHNOLOGY LICENSE AGREEMENT WITH GLE

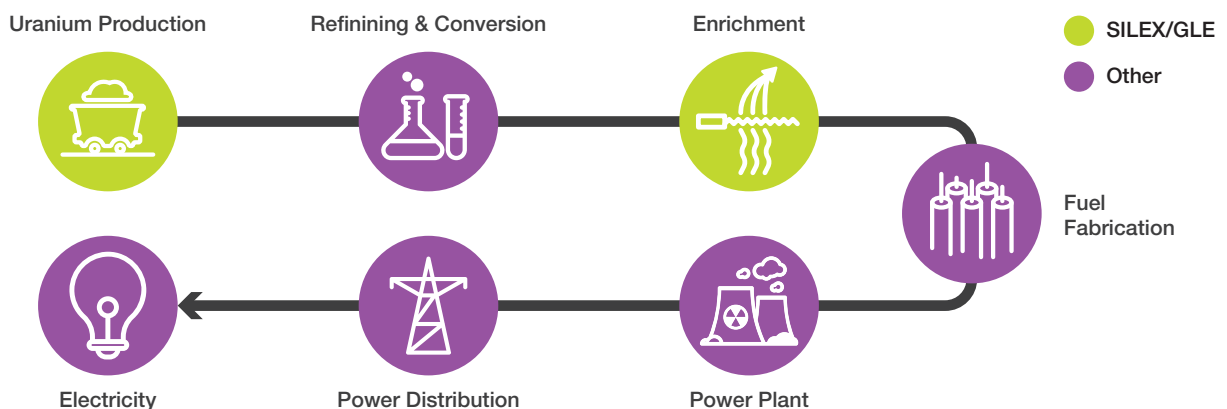
Silex's agreement with GLE is an exclusive worldwide commercialisation and licensing agreement for the SILEX technology. The underlying value in the agreement with GLE is a perpetual royalty of up to 12 percent payable to Silex, comprising:

- A base royalty of 7 percent of revenues generated from enrichment services using the SILEX technology; and
- An additional royalty of up to 5 percent based on the total cost of deployment whereby the lower the cost of deployment per unit production, the higher the royalty.

Additionally, under the commercialisation and license agreement there are potentially two further milestone payments payable:

- US\$5 million – on commencement of construction of the initial commercial plant; and
- US\$15 million – upon verification by the US Nuclear Regulatory Commission of construction compliance and operational readiness of the initial commercial plant.

These milestone payments follow the US\$15 million milestone payment that was received by Silex in July 2013, triggered by the successful completion of the Test Loop Phase 1 Program Milestone: Technology Demonstration and Validation.



BUSINESS OVERVIEW (CONTINUED)

GLE RESTRUCTURE

The Company's primary focus in FY2017 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). GE-Hitachi Nuclear Energy (GEH) announced in April 2016 that they intend to exit GLE, due to changes in business priorities and the continuing difficult conditions being experienced in the nuclear fuel markets. On 29 April 2016, Silex signed a Term Sheet with GEH securing an exclusive option to acquire GEH's 76% interest in GLE, and the right to assign in part or in whole the acquisition terms to third parties.

On 1 September 2017 Silex announced an amendment and extension of the Term Sheet to allow the parties additional time to work towards a mutually acceptable restructure of GLE. The extended Term Sheet includes several amendments which provide Silex and GEH a more efficient and clearer path to finalizing negotiations on a full and binding Purchase and Sale Agreement (PSA) for the acquisition of GEH's interest in GLE.

The amended and extended Term Sheet, which will remain in force until either execution of the PSA or the termination of negotiations, contemplates Silex acquiring a majority interest in GLE. Whilst uncertainties remain in finalizing the transaction documentation, Silex is targeting execution of the PSA before the end of CY2017.

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

Meanwhile Silex continues to take the lead on the search for new investors in GLE in order to keep its restructure options open, with the possibility of assigning part of its rights under the Term Sheet to 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.

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

- the highly skilled and specialised engineering team based in Wilmington (in addition to the highly talented laser development team in Sydney);
- the Test Loop demonstration facility that has operated since 2010 and continues to advance the technology towards full-scale demonstration;
- the combined construction and operating license (COL) granted by the US Nuclear Regulatory Commission in 2012 for a potential commercial enrichment plant in Wilmington, NC;

- the Paducah commercial plant opportunity (to produce natural grade uranium from the reprocessing of tails inventories owned by the US Department of Energy (DOE)) under the Agreement signed between the DOE and GLE.

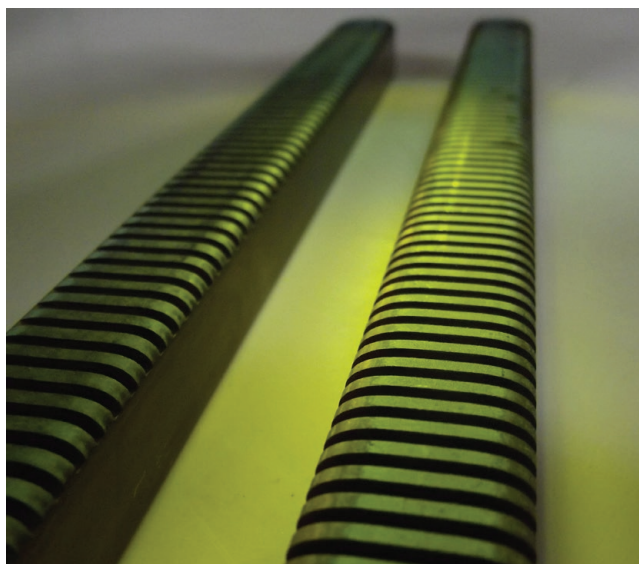
PROJECT ACTIVITIES UPDATE – FULL-SCALE ENGINEERING AND ECONOMIC VALIDATION

The focus of the Company is firmly set on the remainder of the commercialisation program for the SILEX technology.

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	Paducah Opportunity

Whilst the pace of this commercialisation program was slowed significantly by GLE in July 2014 in line with continued adverse conditions in the nuclear fuel markets, the technology engineering and economic validation program has continued to achieve significant progress during FY2017. Additional 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.

Subject to successfully completing the GLE restructure, we will aim for the commercialisation program to be ramped up as soon as funding permits, in anticipation of the commencement of a recovery in nuclear fuel market conditions.



THE PADUCAH OPPORTUNITY

The Paducah commercial plant opportunity continues to be viewed as an ideal path to market for the SILEX technology. The opportunity would allow for the initial commercial deployment of the technology on a smaller scale and at a lower cost, representing a lower risk path to market for investors and other stakeholders.

The opportunity would involve construction of GLE's proposed 'Paducah Laser Enrichment Facility' (PLEF) utilising the SILEX technology to re-enrich around three hundred thousand metric tons of depleted tails inventories owned by the DOE. An agreement between GLE and the DOE providing for the sale of the tails inventories to GLE was signed in November 2016.

The tails re-enrichment at the PLEF would occur over a period of 40 years or more, resulting in the production of natural grade uranium which could then be sold into the expanding global uranium market. At a nominal production rate of around 2000 metric tons of natural uranium hexafluoride (UF₆) per year (subject to applicable regulations), this would rank as a large 'Tier 1' uranium mine by today's standards.

Subject to a recovery in uranium market pricing and receipt of required regulatory approvals and securing project financing, the Paducah commercial plant opportunity represents an ideal path to full commercial deployment of our potentially disruptive laser enrichment technology.

WILMINGTON ENRICHMENT PLANT OPPORTUNITY

In 2012, GLE obtained a combined construction and operating license (COL) from the US Nuclear Regulatory Commission (NRC) for an enrichment plant of up to 6 million separative work units (SWU – the unit for enrichment) planned for Wilmington, North Carolina. The Wilmington plant COL approval is the first license granted in the world for a commercial laser enrichment facility.

Domestic enrichment capacity in the US is currently approximately one third of the total US enrichment requirements. In this light, there remains considerable interest from US utilities in the possibility of a new US-based enrichment supplier as the enrichment market recovers. GLE and Silex will continue to monitor enrichment market conditions as the Wilmington enrichment plant opportunity evolves.

NUCLEAR POWER OUTLOOK

Challenging market conditions continued to impact the nuclear fuel markets throughout FY2017. 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 continue to be depressed.

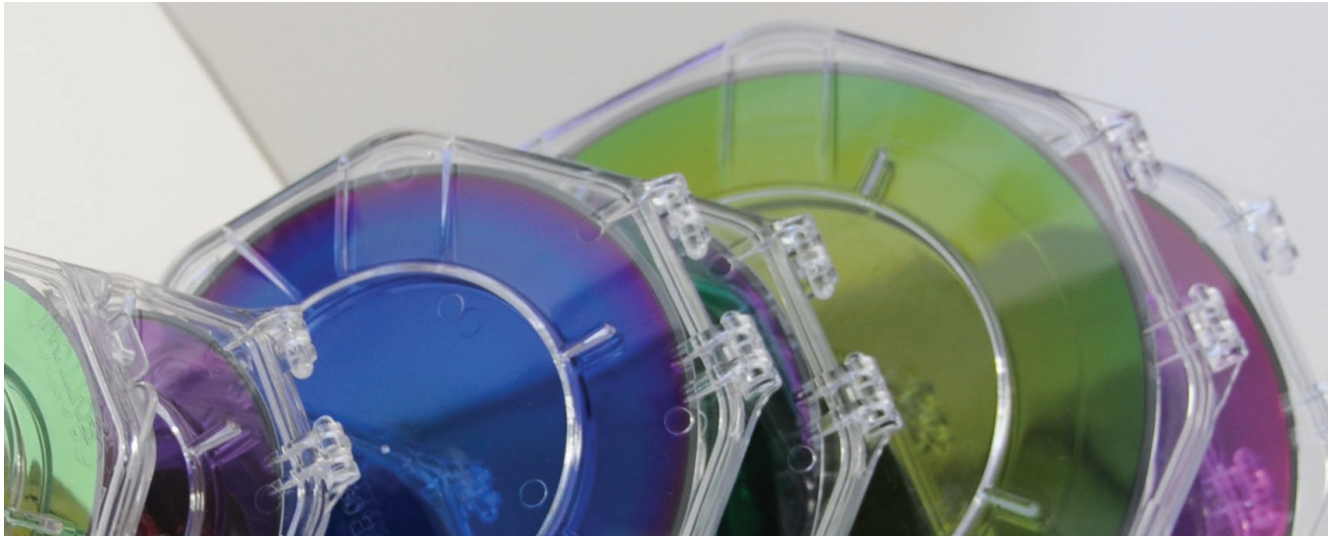
Longer term, a more positive outlook remains for the nuclear industry, driven by the merits of nuclear power as a clean and efficient emissions-free source of base load electricity becoming better understood around the world. Seven new reactor units commenced operations in the past year giving a total of 447 operable reactors globally. With an additional 58 reactors under construction and 162 planned – the demand and supply fundamentals of the nuclear fuel markets are set to recover in the coming years.

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 more 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.

NUCLEAR FUEL MARKET OUTLOOK

The predicted growth in nuclear reactor build as highlighted above underpins the forecast market conditions that could support increasing demand for nuclear fuel from the mid 2020's. Both uranium and enrichment (U and SWU) price recovery and uncovered demand are expected to improve, according to industry analysts Ux Consulting and others. In addition, given the current environment which has precipitated the curtailment of future projects and expansion opportunities and shuttering of existing capacity by both U and SWU producers, 'accessible' supply could decrease as demand increases. This provides potential for GLE and the SILEX technology to participate in the global market for uranium and enrichment from the mid 2020's.

We therefore remain encouraged by these developments in the global nuclear industry. We continue to believe the SILEX technology commercialisation program being conducted jointly by GLE and Silex, remains the best path forward to deliver value to our shareholders.



THE TRANSLUCENT cREO™ SEMICONDUCTOR TECHNOLOGY

BUSINESS DESCRIPTION

Over the past decade, Silix subsidiary Translucent Inc developed a novel set of semiconductor materials known as 'crystalline Rare Earth Oxides' (cREO™) for application to the manufacturing of next generation devices in the semiconductor, digital communications and power electronics industries. Following the extensive pursuit of business development options for Translucent, an exclusive License and Assignment Agreement was signed with UK-based IQE Plc (LON:IQE) in September 2015. IQE is the global leader in the design and manufacture of advanced semiconductor wafer products.

THE TRANSLUCENT – IQE AGREEMENT

Following the signing of the exclusive License and Assignment Agreement with UK-based IQE in September 2015, an initial license fee of US\$1.4 million was paid by IQE in March 2016 following the transfer of the cREO™ technology to IQE's Greensboro, North Carolina manufacturing facility. In accordance with the agreement, the product development and commercialisation activities are to be conducted by IQE during a 30-month option and license period. Should IQE elect to exercise the right to purchase the technology within this period, the payment of a further US\$5 million will be made.

More importantly, the potential commercial applications that IQE have identified for the technology may result in an attractive perpetual royalty of up to 6% of revenues generated by IQE from use of the cREO™ technology.

ACTIVITIES DURING THE YEAR IN REVIEW

Following the successful transfer of Translucent's unique epitaxy equipment and associated cREO™ technology to IQE's North Carolina production facility in 2016, effort and focus has been applied to product development for several applications of the unique cREO™ technology.

IQE have continued to make good progress and are meeting target development milestones for initial products utilising the cREO™ materials. The product development program involves using two of Translucent's production reactors to produce various cREO™ templates on silicon wafers for trialling within the IQE Group and select commercial partners, with initial focus on wireless communications devices and power electronics devices. In light of this progress, IQE has determined an optimal route to commercialisation within a 2 to 3-year timeframe.

BUSINESS FACTS

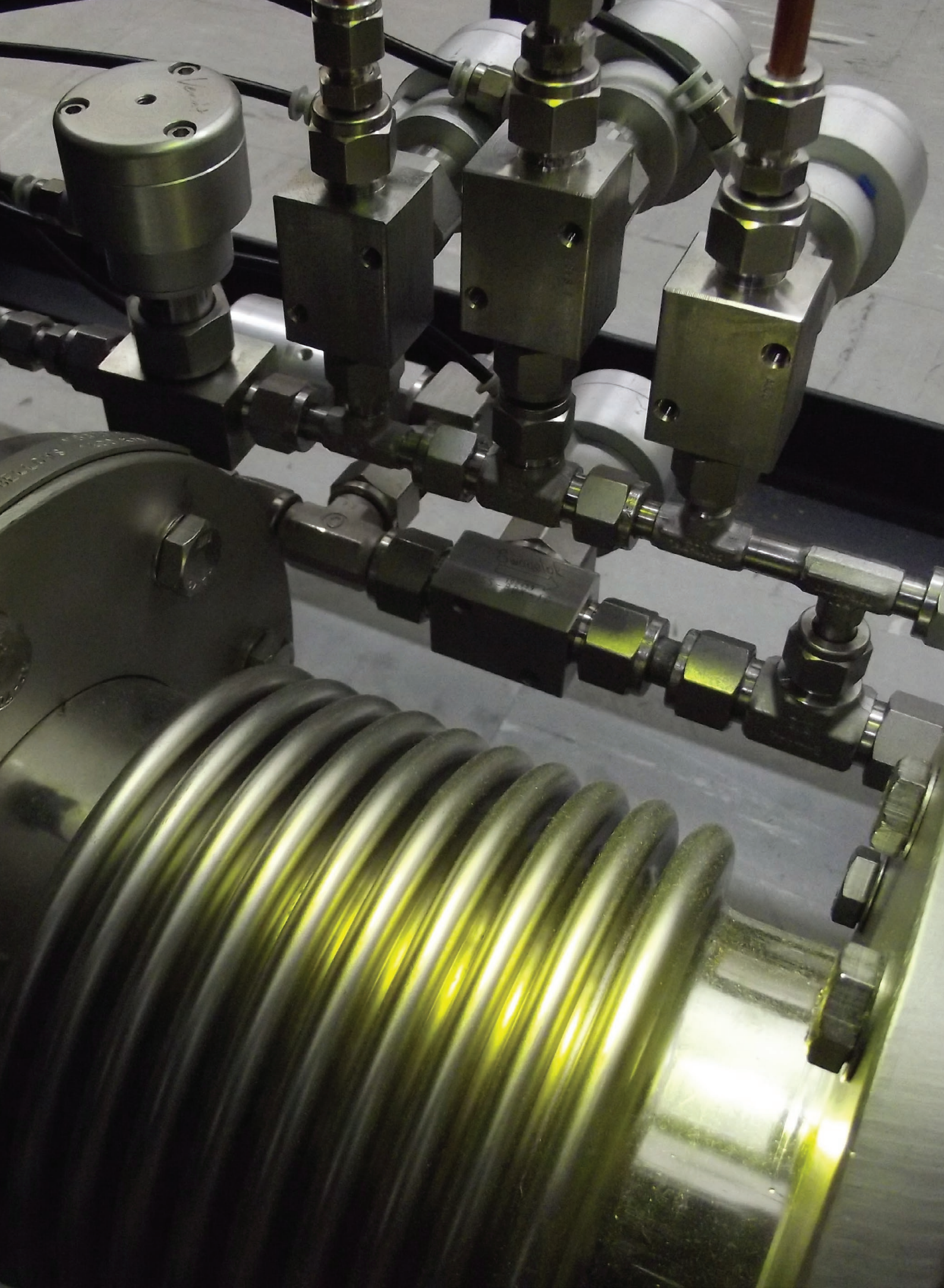
PLATFORM

Semiconductor materials

LOCATIONS

Technology Development by Licensee
IQE – Greensboro, North Carolina, USA

Corporate Office
Sydney, NSW, Australia



HISTORICAL BACKGROUND

1988

Silex is established by founder Dr Michael Goldsworthy as a technology research and development subsidiary of Sonic Healthcare Limited, an Australian publicly listed company.

1990

Silex begins researching the isotope separation concepts of co-inventors Dr Michael Goldsworthy and Dr Horst Struve.

1995

'Proof of Principle' demonstration of the SILEX Process is achieved at the Company's laboratories in Lucas Heights, Sydney. Uranium enrichment, the largest market for isotope separation, becomes Silex's primary focus.

1996

Silex is divested from Sonic Healthcare Limited and sets about establishing the commercial viability of the SILEX technology.

1998

Silex lists on the Australian Stock Exchange (ASX) under the symbol 'SLX'.

2000

An Agreement for Cooperation between the US and Australian Governments is signed, paving the way for continued development of the SILEX technology for uranium enrichment, and facilitating its future transfer to the US.

The first macroscopic demonstration of the SILEX uranium process is successfully achieved.

Silex wins the 2000 Australian Technology Award for Excellence in the Manufacturing and Engineering sector.

Silex raises \$36 million through a share issue to assist in funding the development of its technology portfolio.



2001

The SILEX technology is officially Classified by the US and Australian Governments. The implications of classification relate mainly to security protocols.

2002

The SILEX Uranium Enrichment Project achieves a key milestone with the first full demonstration on practical uranium enrichment using the SILEX 'Direct Measurement Facility' at Lucas Heights, Sydney.

2006

Silex and the General Electric Company sign an exclusive Technology Commercialisation and License Agreement for the SILEX laser uranium enrichment technology in May, with US Government authorisations received in October.

Our mission is to deliver the unique and disruptive SILEX laser uranium enrichment technology as the next generation technology for the global uranium enrichment industry.

2007

Transfer of the SILEX Uranium Enrichment Project to GE's Wilmington, North Carolina (USA) nuclear fuel plant is completed. Hitachi joins GE as project partner.

Silex successfully completes a \$50 million capital raising in October.

2008

GE-Hitachi Global Laser Enrichment LLC (GLE), formed as a subsidiary of GE-Hitachi Nuclear Energy (GEH) to commercialise the SILEX technology, announces it has selected its Wilmington, North Carolina, headquarters site for the first potential commercial SILEX uranium enrichment facility.

GLE is notified that the US Nuclear Regulatory Commission (NRC) has approved a license to operate the Test Loop for the demonstration of the next generation SILEX laser uranium enrichment technology.

GEH and Cameco Corporation announce that Cameco, the world's largest uranium producer, has joined the GLE venture. Cameco paid US\$123.8 million for a 24% stake in GLE. GE retains 51% ownership with Hitachi at 25%.

2009

In August, the US Nuclear Regulatory Commission (NRC) announces it has accepted GLE's license application to construct and operate a commercial SILEX uranium enrichment facility in Wilmington, triggering a ~36 month review process.

In July, GLE announces the on-schedule start-up of the Test Loop to evaluate the next-generation SILEX laser uranium enrichment technology.

2010

In April, GLE and Silex announce the successful completion of the Test Loop initial measurement program.

2011

Silex successfully completes an \$89 million capital raising and a share purchase plan which raises a further \$20 million.

2012

In September, the US NRC approves the world's first Construction and Operating License for a commercial laser enrichment plant utilising the SILEX technology at Wilmington, North Carolina.

2013

In May, GLE and Silex achieve the successful completion of the Test Loop Program Phase I Milestone: Technology Demonstration and Validation in Wilmington, North Carolina – triggering a US\$15 million milestone payment from GLE to Silex (which was received in July 2013).

Silex lists on the OTCQX exchange in the US under the symbol 'SILXY' in June.

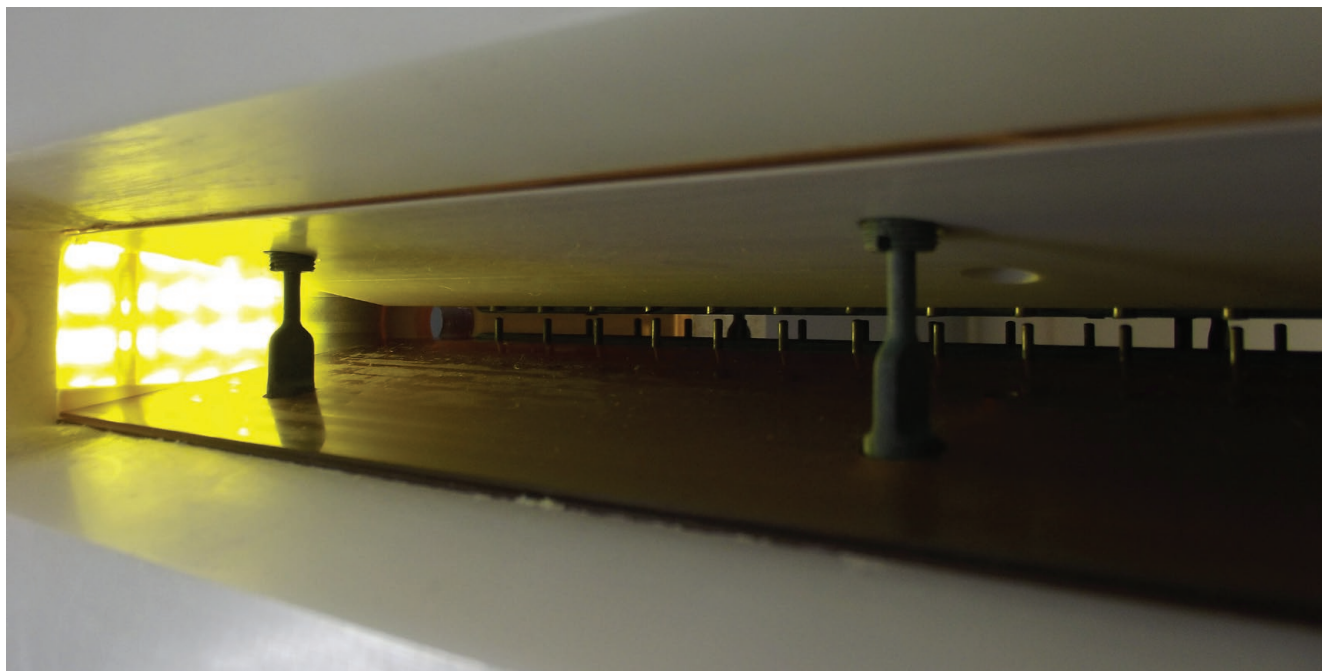
2014

The US Department of Energy (DOE) selects GLE for future operations at its Paducah, Kentucky Site. The DOE and GLE commence negotiations for a 40+ year contract to have the SILEX technology commercially deployed for the re-enrichment of depleted uranium tails.

In June, Silex announces completion of a strategic review of the entire business, determining to refocus efforts on its primary economic asset, the SILEX laser uranium enrichment technology. The strategic review also involves an accelerated transition to market for subsidiaries Solar Systems and Translucent.

In July, GLE announces its own restructure in response to worsening trading conditions in the global nuclear fuel markets, initially triggered by the events in Fukushima, Japan in March 2011. The changes result in the consolidation of GLE's operations. Importantly, the key commercial terms of Silex's licence agreement with GLE do not change.

HISTORICAL BACKGROUND (CONTINUED)



2015

Work continues at reduced pace on the commercialisation of the SILEX laser uranium enrichment technology at GLE's test loop facility in Wilmington, North Carolina (with GLE funding) and at Silex's Lucas Heights laser facility in Sydney (under Silex funding).

In September, Silex subsidiary Translucent Inc's unique semiconductor technology known as 'cREO™' was exclusively licensed to IQE Plc based in the UK. Under the terms of the License and Assignment Agreement, 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.

2016

GEH announced in April that it is looking to exit GLE, due to changes in business priorities and the continuing difficult market conditions. Silex subsequently executed a Term Sheet with GEH securing an exclusive option to acquire GEH's 76% interest in GLE, and the right to assign in part or in whole the acquisition terms to third parties.

In November, GLE and the US Department of Energy (DOE) signed an agreement for the sale and purchase of depleted uranium hexafluoride (DUF₆) for potential re-enrichment in the first SILEX laser enrichment facility in Paducah, Kentucky. The opportunity would result in the SILEX technology processing around 300,000 metric tons of depleted uranium (tails) stockpiles owned by the DOE for over 40 years.

2017

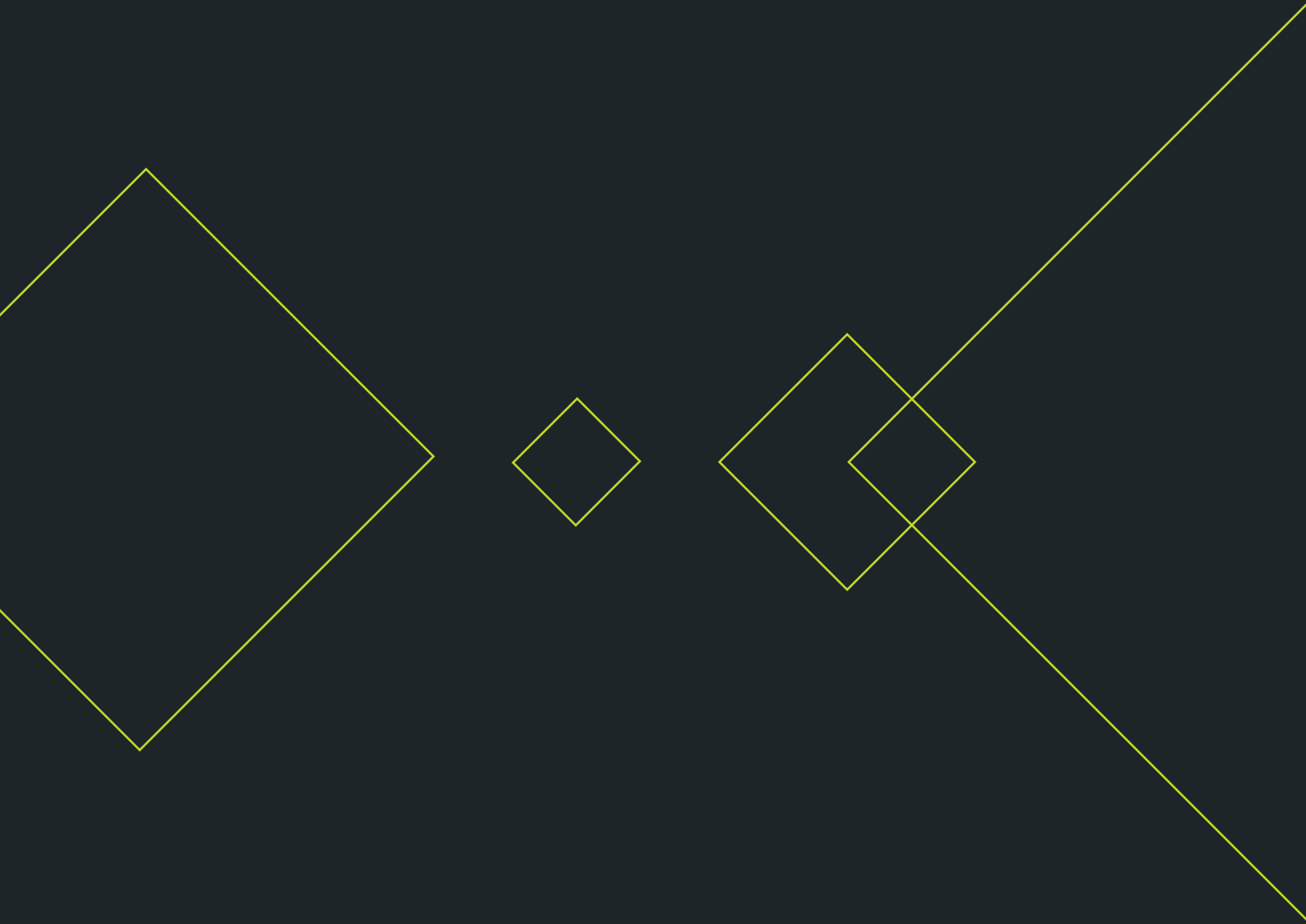
In September, Silex announced that GEH and Silex agreed to amend and extend the Term Sheet for the acquisition of GEH's 76% interest in GLE, providing Silex and GEH a more efficient and clearer path to finalizing negotiations on a full and binding Purchase and Sale Agreement (PSA) for the acquisition of GEH's 76% interest in GLE.

The SILEX technology maturation program continues to advance at both the GLE, Wilmington and Silex, Lucas Heights project sites, with several engineering scale-up and economic validation deliverables achieved during the year.

IQE continued to meet target development milestones for initial products utilising subsidiary Translucent's cREO™ materials. Two of Translucent's production reactors are being used to produce various cREO™ templates on silicon wafers for trialling within the IQE Group and by select commercial partners.

CONCISE FINANCIAL REPORT

for the year ended 30 June 2017



SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES

ABN 69 003 372 067

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 2017.

1. Directors

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

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

2. Principal activities

During the year, the principal activity of the Company was the continued development and commercialisation of our core asset, the laser isotope separation process for uranium enrichment known as the SILEX technology in conjunction with exclusive licensee, GE-Hitachi Global Laser Enrichment LLC (GLE).

3. Dividend

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

DIRECTORS' REPORT

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:

	2017 \$	2016 \$
Revenue from continuing operations	1,365,646	1,617,655
(Loss) before income tax expense	(10,211,489)	(4,700,759)
Income tax expense	–	–
Net (loss) from continuing operations	(10,211,489)	(4,700,759)
Net profit from discontinued operations	92,558	1,303,871
Net (loss) for the year	(10,118,931)	(3,396,888)
Net (loss) is attributable to:		
Owners of Silex Systems Limited	(10,118,931)	(3,396,888)

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

Market for Nuclear Reactor Fuel

The global demand for nuclear fuel, and specifically uranium and enrichment services remains depressed with prices struggling to move above decade lows. The continued slow pace of the restart of the Japanese nuclear reactor fleet, and nuclear policy uncertainty in countries such as the US, Germany, France and South Korea has contributed to weaker growth and a delay to the expected return to a more balanced demand and supply scenario in the markets for nuclear fuel.

Looking to the medium term and beyond, we continue to believe that the outlook for the nuclear industry is positive and that market growth will return. Our view is supported by the World Nuclear Association's account of 58 reactors being currently under construction. Additionally, with the start-up of 7 new reactor units in the past year, there are 447 operable reactors globally at present. With a further 162 reactors planned with approvals, funding or commitments in place – we expect to witness the rebalancing of demand and supply fundamentals in nuclear fuel markets over the coming years.

DIRECTORS' REPORT

The GLE Restructure

The search for new investors to restructure the exclusive licensee of the SILEX laser uranium enrichment technology, GE-Hitachi Global Laser Enrichment LLC (GLE), continued during the year despite a backdrop of challenging market conditions that have defined the nuclear industry since the Fukushima accident in 2011. Silex has led the search for new investors in GLE who are capable of backing GLE's transition to market and supporting the commercialisation of the SILEX technology. Engagement with the various stakeholders in the restructure of GLE has also been a key focus for Silex and is ongoing.

At the time of writing, a number of parties continue to assess the GLE restructure opportunity and progress with their due diligence. Silex also continues to consider the potential to take a majority equity interest in GLE such that we can have greater visibility and participation in the technology commercialisation program going forward. Silex continues to believe that GLE is the best vehicle to take the SILEX technology to market, based on the preservation of several key assets which will underpin the value of GLE and the SILEX technology.

The Technology Maturation Plan

Further technology maturation including several engineering scale-up and economic validation deliverables were achieved during FY2017 at both the GLE, Wilmington, North Carolina and Silex, Sydney project sites. Activities in the Test Loop facility in Wilmington included the commissioning of key process equipment which resulted in the successful demonstration of efficiency improvements and the potential to lower operating and capital costs. Laser system development activities in Sydney included test and reliability of the prototype commercial-scale plant laser system and the ongoing development of plant control systems required for the integrated prototype commercial technology demonstration to be conducted in Wilmington in the 2020 timeframe.

The Paducah Project Opportunity

Pursuant to the signing of the agreement between GLE and the US DOE in November 2016, the Paducah commercial opportunity is viewed by the Company as an ideal path to market for GLE and the SILEX technology. The opportunity would see the construction of the first laser enrichment facility and the commercial deployment of the SILEX technology to re-enrich ~300,000 metric tons of depleted uranium (tails) stockpiles owned by the DOE.

The tails re-enrichment would occur over a period of 40+ years, resulting in the production of natural grade uranium which could then be sold into the global uranium market which is expected to expand in the future. At a nominal production rate of around 2,000 metric tons of natural uranium hexafluoride (UF₆) per year (subject to applicable regulations), this project would rank as a large 'Tier 1' uranium mine by today's standards.

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 was completed in FY2016 and resulted in the exclusive licensing of Translucent's unique semiconductor technology known as crystalline Rare Earth Oxide (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 until March 2018 in which to elect to acquire Translucent's technology at which time an additional amount of US\$5m will be payable. Translucent ceased its Californian operations in December 2015 following the successful transfer of the technology to IQE.

During FY2017, IQE continued to make good progress in meeting target development milestones for initial products using the cREO™ materials. The product development program involves using two of Translucent's production reactors to produce various cREO™ templates on silicon wafers for trialling within the IQE group and select commercial partners, with initial focus on wireless communications devices and power electronics devices. In light of this progress, IQE has determined an optimal route to commercialisation within a 2 to 3-year timeframe.

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

DIRECTORS' REPORT

Financial review

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

	2017 \$	2016 \$
Revenue from continuing operations	1,365,646	1,617,655
Other income	940,847	1,467,828
Research and development materials	(207,498)	(60,107)
Development expenditure	(6,668,102)	(2,550,261)
Employee benefits expense	(3,676,747)	(3,091,636)
Consultants and professional fees	(914,782)	(951,041)
Rent, utilities and property outgoings	(411,461)	(433,766)
Other expenses	(639,392)	(699,431)
Income tax expense	–	–
Net (loss) from continuing operations	(10,211,489)	(4,700,759)
Net profit from discontinued operations	92,558	1,303,871
Net (loss) for the year	(10,118,931)	(3,396,888)

The net loss from ordinary activities of \$10.1m increased by \$6.7m compared to the prior year. The net loss is comprised of the loss from continuing operations of \$10.2m (an increase of \$5.5m compared to the prior year) and the profit from discontinued operations of \$0.1m (compared to \$1.3m for the prior year).

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

Continuing Operations – Silex Systems

The Silex Systems segment result was a \$10.2m loss in the current year compared to a \$4.7m loss in the prior year.

Revenue (Interest income) reduced by \$0.3m as average cash balances and interest rates declined. Other income reduced by \$0.5m which was due to a \$0.5m reduction in Research and Development tax incentive income. There was an increase in expenses from continuing operations of \$4.7m compared to the prior year. This was mainly due to \$6.7m of Development expenditure in the current year relating to Silex's reimbursement of GEH's pro-rata share of funding for GLE's Wilmington operations (\$2.6m in the prior year). In addition, Employee benefits expense increased by \$0.6m largely as a result of an increased support for continuing operations and the GLE restructure.

Discontinued Operations – Translucent and Solar Systems

The Silex Board announced the cessation of the Solar Systems business operation on 30 July 2015. Various property, plant and equipment and technology assets were sold to third parties with total proceeds of \$2.8m received, of which \$0.5m was received during the year ended 30 June 2017. All (held for sale) assets of the Solar Systems business have now been sold.

As a result of the exclusive License and Assignment Agreement with IQE Plc for Translucent's proprietary cREO™ technology, the product development and commercialisation program was transferred to IQE. The Translucent, Palo Alto, California operation ceased upon the successful transfer of the cREO™ technology in late 2015.

The profit from discontinued operations was \$0.1m in the current year compared to a profit of \$1.3m in the prior year. The current year result was mainly due a \$0.1m profit on sale of residual Solar Systems' assets (\$1.3m in the prior period).

DIRECTORS' REPORT

Balance sheet

A summary of our balance sheet is set out below:

	30 June 2017 \$	30 June 2016 \$
Assets		
Total current assets	44,520,749	55,098,350
Total non-current assets	7,367,498	1,706,048
Total assets	51,888,247	56,804,398
Liabilities		
Total current liabilities	2,479,087	2,950,265
Total non-current liabilities	116,892	104,728
Total liabilities	2,595,979	3,054,993
Net assets	49,292,268	53,749,405
Equity		
Total equity	49,292,268	53,749,405

As at 30 June 2017, total assets were \$51.9m. Significant assets are cash holdings of \$42.7m (cash and term deposits), and Available-for-sale financial assets of \$7.3m. Total liabilities were \$2.6m and included trade and other payables of \$1.8m.

5. Earnings per share

	2017 Cents	2016 Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the Company		
Basic earnings per share	(6.0)	(2.8)
Diluted earnings per share	(6.0)	(2.8)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		
Basic earnings per share	(5.9)	(2.0)
Diluted earnings per share	(5.9)	(2.0)

DIRECTORS' REPORT

6. Significant changes in state of affairs

The financial position and performance of the Company continued to be affected by the Company's participation in the restructure of the exclusive licensee for the SILEX technology, GLE. This effort is consistent with the objectives of the Company's 2014 major strategic review which aimed to return the Company's focus to the development and commercialisation of its foundation technology and core asset – the SILEX technology.

Silex continued its efforts to attract new investors to support a restructure of GLE, after GE-Hitachi (GEH) disclosed in 2016 their intention to divest their 76% stake in GLE. Silex holds an exclusive, assignable option over GEH's 76% equity stake in GLE in accordance with the provisions of a Term Sheet signed by Silex and GEH in April 2016 and as last amended and extended on 31 August 2017 (refer ASX Announcement dated 1 September 2017). The amended Term Sheet, which will remain in force until either execution of the PSA or the termination of negotiations, contemplates Silex acquiring a majority interest in GLE.

Pursuant to the amended Term Sheet, Silex will continue to contribute 76% of the funding of GLE's Wilmington, North Carolina operations in addition to funding Silex's laser development activities at its Lucas Heights facility south of Sydney. The amended Term Sheet provides a revised framework for the GLE restructure, including a more efficient and clearer path to finalizing negotiations on a full and binding Purchase and Sale Agreement for the acquisition of GEH's 76% interest in GLE.

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 2017 and 22 September 2017, 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 \$4,500,000 since 30 June 2017. 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 2017 will be recognised in the financial statements for the year ended 30 June 2018.

As announced to the ASX on 1 September 2017, Silex and GE-Hitachi Nuclear Energy (GEH) reached agreement to further amend and extend the Term Sheet for the exclusive assignable option over GEH's 76% interest in GLE. The amended Term Sheet, which will remain in force until either execution of a binding Purchase and Sales Agreement (PSA) or the termination of negotiations, contemplates Silex taking a majority interest in GLE. Pursuant to the amended Term Sheet Silex will continue to contribute 76% of the funding of GLE's Wilmington, North Carolina operations in addition to funding Silex's laser development activities at its Lucas Heights facility south of Sydney. The total funding support for the 6 months ending 31 December 2017 is expected to be approximately \$6.5 million.

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.

DIRECTORS' REPORT

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 intending to exit GLE, due to changes in business priorities and the continuing adverse market conditions driven by the Fukushima disaster in 2011. Silex continues in its efforts to restructure GLE and on 1 September 2017 announced the agreement to amend and extend the PSA Term Sheet that was originally signed with GEH in April 2016. At the time of writing, a number of parties continue to assess the GLE restructure opportunity and progress with their due diligence activities. In parallel Silex continues to consider the possibility of taking a majority equity interest in GLE, which would provide the Company greater visibility and participation in the technology commercialisation program going forward.

In light of the above, future potential milestone receipts and royalties under the Amended and Restated Technology Commercialisation and License Agreement (ARTCLA) signed with GLE in 2013 may be significantly delayed or changed 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, and the timing of the recovery in the markets for uranium and enrichment services. At this time, it is too early to speculate how the final outcome of the GLE restructure will affect the Company's position under the ARTCLA, particularly if Silex proceeds with the acquisition of a majority interest in GLE. That said, the Company is striving to maximise the potential returns from commercialisation of the SILEX technology under a variety of possible future scenarios.

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 uncertain.

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

Business strategies and future prospects

The SILEX Technology

In recent years, the Company has refocused its resources and attention to our core asset, the SILEX laser based uranium enrichment technology. We remain 100% committed to the SILEX technology and its successful commercialisation in collaboration with exclusive licensee GLE. We intend to continue to protect our core asset and position ourselves to participate in the forecasted recovery of the global market for nuclear fuel in the mid-2020's.

Central to the execution of our strategy are the following:

- efforts to increase Silex's involvement with GLE – potentially as a significant shareholder;
- increased presence in the US, the target market for deployment of the SILEX technology;
- ongoing evaluation of new opportunities to participate in the nuclear fuel cycle;
- retention of our talent and maintaining our Sydney facility as a centre of innovation; and
- focus on effective cost management to ensure the most efficient use of cash reserves.

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

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

DIRECTORS' REPORT

The SILEX technology maturation program continues to advance at both the GLE, Wilmington and Silex, Sydney project sites, with several engineering scale-up and economic validation deliverables achieved during the year. Activities at the Test Loop facility in Wilmington included the commissioning and demonstration of key process equipment components which resulted in the confirmation of significant efficiency improvements and the potential to lower operating and capital costs. Laser system development activities in Sydney included the commissioning and demonstration of a prototype production-scale laser system and the development of associated control systems, all of which will be combined for a major integrated demonstration of the prototype commercial technology to be conducted in Wilmington.

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	Paducah Opportunity

Status of Nuclear Fuel Markets

The global demand for nuclear fuel, and specifically uranium and enrichment services remains depressed. The continued slow pace of the restart of the Japanese nuclear reactor fleet, and nuclear policy uncertainty in countries such as the US, Germany, France and South Korea has contributed to weaker growth and a delay to the expected return to a more balanced demand and supply scenario in the markets for nuclear fuel.

Looking to the medium term and beyond, we continue to believe that the outlook for the nuclear industry is positive and that market growth will return. Our view is supported by the World Nuclear Association's account of 58 reactors being currently under construction. Additionally, with the start-up of 7 new reactor units in the past year, there are 447 operable reactors globally at present. With a further 162 reactors planned with approvals, funding or commitments in place – we expect to witness the rebalancing of demand and supply fundamentals in nuclear fuel markets over the coming years.

We continue to believe our core asset, the SILEX technology 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.

DIRECTORS' REPORT

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 five years and Chair for three years. Extensive experience as a Company Director. Other current directorship roles include icare NSW, HCF, Studiosity Pty Ltd and the University of Sydney. Executive career in strategy, commercialisation and performance support as a senior partner of global strategy firm L.E.K. Consulting for 20 years.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	Non-executive director of Cover-More Group Limited from November 2013 to April 2017	
Special responsibilities	Chair of the Board Member of Audit Committee Chair of People & Remuneration Committee	
Interests in shares and options	Ordinary shares – Silex Systems Limited	48,230
	Options over ordinary shares – Silex Systems Limited	Nil

Dr Michael Goldsworthy BSc (Hons), MSc, PhD, FAIP, GAICD.

Chief Executive Officer/Managing Director

Experience and expertise	CEO/MD for twenty-five years. Founder of the Company and co-inventor of the SILEX uranium enrichment technology.	
Other current listed company directorships	None	
Former listed company directorships in last 3 years	None	
Special responsibilities	Chief Executive Officer / Managing Director	
Interests in shares and options	Ordinary shares – Silex Systems Limited	5,979,055
	Options over ordinary shares – Silex Systems Limited	Nil

Mr Christopher Wilks BComm, FAICD.

Non-executive director

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

DIRECTORS' REPORT

Mr Robert Lee BSc, MBA, GAICD.
Independent non-executive director

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

10. Meetings

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

Director's name	Directors' Meetings		Audit Committee Meetings		People & Committee Meetings	
	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
Dr L M McIntyre	12	12	3	3	2	2
Dr M P Goldsworthy	12	12	*	*	*	*
Mr R A R Lee	12	12	3	3	2	2
Mr C D Wilks	12	12	3	3	2	2

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

DIRECTORS' REPORT

11. Remuneration Report

Dear Fellow Shareholders,

On behalf of the Board and as Chair of the Company's People and Remuneration Committee, I am pleased to present to you the FY2017 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 the Committee's remuneration decisions with respect to FY2017 and our remuneration policies and practices generally.

The Company's primary focus during FY2017 was leading the activities relating to the restructure of GLE, the exclusive licensee of the unique and potentially disruptive SILEX laser based uranium enrichment technology. The restructure has been hindered by challenging business conditions in the markets for nuclear fuel that are attributable to the ongoing depressed state of the nuclear industry in a post-Fukushima operating environment. These conditions continue with the recovery of the markets for uranium and enrichment services expected to take longer than originally anticipated due to the continued slow pace of reactor restarts in Japan and nuclear policy uncertainty in countries such as the US, Germany, France and South Korea. Despite these difficult conditions, Silex continues to push forward with activities to restructure GLE and continue the commercialisation of the SILEX technology.

With respect to our other technology license, we have been pleased this year with the product development progress made by the exclusive licensee of the Translucent cREO™ semiconductor technology, IQE Plc. IQE continue to pursue several potential paths for the commercial deployment of the cREO™ technology with its utilisation planned in a number of IQE's growing product segments.

As a result of the GLE restructure taking longer than anticipated, the Committee made some difficult decisions with respect to the remuneration of the Company's KMP. No remuneration increases were awarded in FY2017 for our CEO/MD or our Board and our Board continues to not receive fees for Committee participation or for extraordinary time contributed to the Company's activities. Being mindful of the difficulties faced by the Company, our CEO/MD forfeited his eligibility to receive a Short-Term Incentive (STI) for FY2017. Our CFO/Company Secretary also forfeited 90% of her STI for FY2017. We also remain aware 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 eligibility of our executives to participate in long-term incentives will continue to be deferred.

Following a full review of the remuneration package of our CFO/Company Secretary, an increase of 12.65% to Total Fixed Remuneration and a 25% increase to the maximum available STI was awarded from 1 July 2016. An additional \$25,000 was included on a one-off basis to the FY2017 STI with \$12,500 awarded in February 2017, reflecting our CFO's significant contribution to facilitating the due diligence activities conducted by potential investors in GLE. The balance of the maximum available STI for FY2017 of \$112,500 was forfeited.

As we move forward in FY2018, the Company continues to focus on minimising cash burn where possible and maximising shareholder value in all our activities related to the GLE restructure.

On behalf of the Board, I invite you to review the full report and thank you for your continued support during these difficult times. I look forward to answering any questions you may have at our Annual General Meeting in November 2017.



Dr Lisa McIntyre

Chair, People & Remuneration Committee

DIRECTORS' REPORT

The Directors present the Remuneration Report for the year ended 30 June 2017, 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 2016 Annual General Meeting
- e) Executive KMP remuneration structure
- f) Link between FY2017 remuneration and performance
- g) Non-executive directors' remuneration
- h) Directors' and KMP remuneration
- i) Details of share-based compensation and bonuses
- j) Shares under option

a) Directors and KMP disclosed in this report

The 2017 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 C D Wilks	Non-executive director
Other executive KMP	
Ms J E Ducie	CFO/Company Secretary

b) Remuneration governance

Board oversight

The Silix 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.

DIRECTORS' REPORT

People & Remuneration Committee structure

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

Members of the People & Remuneration Committee were as follows:

Committee members	Dr L M McIntyre – Chair Mr R A R Lee Mr C D Wilks
Committee secretary	Ms A N Scott to 26 May 2017, Ms J E Ducie from 29 May 2017
Number of meetings in FY2017	2
Other individuals who regularly attended meetings	Dr M P Goldsworthy – CEO/MD

The role of the People & Remuneration Committee is to:

- Review and recommend to the Board the appropriate remuneration policies and practices that are competitive and reasonable for the Company and its specific application to KMP, as well as the general application to all employees;
- Determine remuneration levels of the CEO/MD and 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 FY2017. The Company has previously engaged AON Hewitt to conduct a thorough review of KMP and Board remuneration and structure. The recommendations from the most recent review were fully implemented during FY2015 and FY2016. The Company continues to access market data and industry remuneration surveys and reports on a regular basis.

c) Linking remuneration structure to company performance

Remuneration strategy, policy and framework

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

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

DIRECTORS' REPORT

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 FY2017. At this time, it has been determined that no LTIs will be granted for FY2018.

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

d) Voting and comments made at the Company's 2016 Annual General Meeting

Silex Systems Limited received more than 97% of "yes" votes on its Remuneration Report for the 2016 financial year.

e) Executive KMP remuneration structure

For FY2017, 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.

For FY2017, the TFR for our CEO/MD remained unchanged. Following a full review of the remuneration package of our CFO/Company Secretary, an increase of 12.65% to TFR was implemented from 1 July 2016.

DIRECTORS' REPORT

Short-term Incentives (STI)

	CEO/Managing Director	CFO/Company Secretary
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.
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.*
Total Maximum Opportunity	\$200,000	\$125,000**
At Risk	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.

** Total Maximum Opportunity reduced to \$100,000 for FY2018.

Long-term Incentive (LTI)

No long-term incentives were granted during FY2017 to the CEO/MD or CFO/Company Secretary.

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 FY2018.

f) Link between FY2017 remuneration and performance

FY2017 performance and impact on remuneration

Throughout FY2017, the Company's primary focus was on the continued development and commercialisation of the SILEX technology and the Company remained vigilant with respect to its efforts to restructure exclusive licensee, GLE and to respond to challenging operating conditions in the nuclear industry.

The STI performance criteria for FY2017 for the CEO/MD and CFO/Company Secretary were heavily focussed on the deliverables associated with the GLE restructure and the SILEX technology. Key performance criteria included achievement of a restructure of GLE, attainment of commercialisation and development milestones for the SILEX technology and delivery of financial rigour and operational cost reductions.

A one-off STI of \$12,500 was awarded in February 2017 to our CFO/Company Secretary reflecting her significant contribution to the due diligence being conducted by potential investors in GLE.

Significant progress was made in all key performance areas, however being mindful of the difficulties faced by the Company, our CEO/MD forfeited his eligibility to receive a STI for FY2017 and our CFO/Company Secretary forfeited 90% of her eligibility to receive a STI for FY2017 (\$12,500 awarded from total maximum opportunity of \$125,000).

DIRECTORS' REPORT

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 \$
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
2017	(5.9)	12,500	0.37

Contractual arrangements with executive KMPs

Component	CEO/MD	CFO/Company Secretary
Total Fixed Remuneration	\$550,000	\$325,000
Contract duration	Ongoing Common Law Contract	Ongoing Common Law Contract
Notice by the individual or Company	6 months	6 months
Termination of employment (without cause)	Partial payment for pro-rata STI may be applicable at 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

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 \$260,000 in FY2017. The Silex Board currently comprises three non-executive directors and an executive director. The current Board size and composition 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.

DIRECTORS' REPORT

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.

Name	Year	Fixed remuneration					Variable remuneration		Total
		Cash salary and fees* \$	Non-monetary benefits* \$	Annual and Long service leave** \$	Post-employment benefits – superannuation \$	Other*** \$	Cash bonus* \$	Deferred rights# \$	
Executive directors									
Dr M P Goldsworthy	2017	505,987	10,264	4,527	34,916	–	–	–	555,694
	2016	505,500	10,624	9,505	34,908	–	140,000	24,725	725,262
Non-executive directors (NED)									
Dr L M McIntyre	2017	100,000	–	–	9,500	–	–	–	109,500
	2016	110,500	–	–	10,498	–	–	–	120,998
Mr R A R Lee	2017	80,000	–	–	7,600	–	–	–	87,600
	2016	89,164	–	–	8,471	–	–	–	97,635
Mr C D Wilks	2017	85,416	–	–	8,115	–	–	–	93,531
	2016	121,500	–	–	11,543	–	–	–	133,043
Mr A M Stock (until 31/8/2015)	2017	–	–	–	–	–	–	–	–
	2016	15,667	–	–	1,488	–	–	–	17,155
Other key management personnel and group executives									
Ms J E Ducie	2017	295,084	–	16,123	29,916	–	12,500	–	353,623
	2016	255,486	–	22,921	29,908	–	71,000	2,970	382,285
Mr C R Murray (until 31/8/2015)	2017	–	–	–	–	–	–	–	–
	2016	51,781	12,973	(6,730)	18,688	229,284	–	–	305,996
Total executive directors and other KMP	2017	801,071	10,264	20,650	64,832	–	12,500	–	909,317
	2016	812,767	23,597	25,696	83,504	229,284	211,000	27,695	1,413,543
Total NED remuneration	2017	265,416	–	–	25,215	–	–	–	290,631
	2016	336,831	–	–	32,000	–	–	–	368,831
Total KMP remuneration	2017	1,066,487	10,264	20,650	90,047	–	12,500	–	1,199,948
	2016	1,149,598	23,597	25,696	115,504	229,284	211,000	27,695	1,782,374

* Short-term benefits as per Corporations Regulations 2M 3.03(1) Item 6.

** Other long-term benefits as per Corporations Regulations 2M 3.03(1) Item 8.

*** Other includes termination payments made to Mr C R Murray.

Equity-settled share based payments as per Corporations Regulations 2M 3.03(1) Item 11.

DIRECTORS' REPORT

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 *	
	2017	2016	2017	2016	2017	2016
Directors						
Dr L M McIntyre	100.0%	100.0%	N/A	N/A	N/A	N/A
Dr M P Goldsworthy	100.0%	77.3%	–	19.3%	–	3.4%
Mr R A R Lee	100.0%	100.0%	N/A	N/A	N/A	N/A
Mr C D Wilks	100.0%	100.0%	N/A	N/A	N/A	N/A
Mr A M Stock	N/A	100.0%	N/A	N/A	N/A	N/A
Other Executive KMP						
Ms J E Ducie	96.5%	80.6%	3.5%	18.6%	–	0.8%
Mr C R Murray	N/A	100.0%	N/A	0.0%	N/A	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 FY2017 (or FY2016).

STI bonuses

For each STI award for the year ended 30 June 2017 (payable in the form of a cash bonus), the percentage of the bonus awarded or forfeited is set out below:

2017	Total opportunity \$	Awarded %	Forfeited %
Dr M P Goldsworthy	200,000	0%	100%
Ms J E Ducie	125,000	10%	90%

A one-off STI award of \$12,500 was made in February 2017 to our CFO/Company Secretary reflecting the significant contribution made to facilitating the due diligence activities conducted by potential investors in GLE.

LTI deferred rights and cash incentives

No LTI's were in place for the year ended 30 June 2017.

DIRECTORS' REPORT

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:

2017 Name	Balance at the start of the year	Received during the year on the exercise of options	Received on vesting of rights to shares	Other changes during the year	Balance at the end of the year
Directors 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
Other Executive KMP					
Ms J E Ducie	3,759	–	–	–	3,759

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:

2017 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)	–	–	–	–	–
Mr C D Wilks	367,035	–	(367,035)	–	–	–	–	–
Other Executive KMP								
Ms J E Ducie	60,000	–	(60,000)	–	–	–	–	–

j) Shares under option

There were no unissued ordinary shares of Silex Systems Limited under option at the date of this report.

Securities Trading Policy

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

DIRECTORS' REPORT

12. Company Secretary

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

13. Indemnification and insurance of directors

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

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

14. Environmental regulation

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

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

15. Non-audit services

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

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

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

- all non-audit services have been reviewed by the Audit Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

DIRECTORS' REPORT

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:

	2017 \$	2016 \$
Other assurance services		
PricewaterhouseCoopers Australian firm	–	–
Total remuneration for other assurance services	–	–
Other services		
Seminars and training courses	582	–
Total remuneration for other services	582	–
Total remuneration for non-audit services	582	–

16. Auditors

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

17. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 37.

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



Dr M P Goldsworthy
CEO/MD

Sydney, 22 September 2017



Mr C D Wilks
Director

DIRECTORS' REPORT



Auditor's Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

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

David Ronald
Partner
PricewaterhouseCoopers

Sydney
22 September 2017

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Liability limited by a scheme approved under Professional Standards Legislation

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 2017 Corporate Governance Statement is dated as at 30 June 2017 and reflects the corporate governance practices in place throughout the 2017 financial year. The 2017 Corporate Governance Statement was approved by the Board on 21 September 2017 and lodged with the ASX Appendix 4G, on 22 September 2017. 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.

CONCISE FINANCIAL REPORT

for the year ended 30 June 2017

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Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2017. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

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

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



SILEX SYSTEMS LIMITED
& ITS SUBSIDIARIES

ABN 69 003 372 067

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June 2017

	Note	2017 \$	2016 \$
Revenue from continuing operations	2	1,365,646	1,617,655
Other income	3	940,847	1,467,828
Research and development materials		(207,498)	(60,107)
Development expenditure		(6,668,102)	(2,550,261)
Finance costs		(11)	(55)
Depreciation and amortisation expense		(27,349)	(27,191)
Employee benefits expense		(3,676,747)	(3,091,636)
Consultants and professional fees		(914,782)	(951,041)
Printing, postage, freight, stationery and communications		(72,897)	(99,574)
Rent, utilities and property outgoings		(411,461)	(433,766)
Net foreign exchange losses		(155,223)	(143,418)
Other expenses from continuing activities		(383,912)	(429,193)
(Loss) before income tax expense		(10,211,489)	(4,700,759)
Income tax expense		-	-
Net (loss) from continuing operations		(10,211,489)	(4,700,759)
Net profit from discontinued operations	4	92,558	1,303,871
Net (loss) for the year		(10,118,931)	(3,396,888)
Net (loss) is attributable to:			
Owners of Silex Systems Limited		(10,118,931)	(3,396,888)

	Cents	Cents
Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	(6.0)	(2.8)
Diluted earnings per share	(6.0)	(2.8)
Earnings per share for (loss) attributable to the ordinary equity holders of the company		
Basic earnings per share	(5.9)	(2.0)
Diluted earnings per share	(5.9)	(2.0)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 30 June 2017

	2017 \$	2016 \$
Net (loss) for the year	(10,118,931)	(3,396,888)
Other comprehensive income		
<i>Items that may be reclassified to profit or loss:</i>		
Changes in the fair value of available-for-sale financial assets	5,716,932	(283,451)
Exchange differences on translation of foreign operations	(53,342)	(51,181)
Other comprehensive income for the year, net of tax	5,663,590	(334,632)
Total comprehensive income for the year	(4,455,341)	(3,731,520)
Attributable to:		
Owners of Silex Systems Limited	(4,455,341)	(3,731,520)
Total comprehensive income for the year	(4,455,341)	(3,731,520)
Total comprehensive income for the period attributable to owners of Silex Systems Limited arises from:		
Continuing operations	(10,211,489)	(4,700,759)
Discontinued operations	5,756,148	969,239
	(4,455,341)	(3,731,520)

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

CONSOLIDATED BALANCE SHEET

as at 30 June 2017

	Note	30 June 2017 \$	30 June 2016 \$
Assets			
Current assets			
Cash and cash equivalents		1,876,319	1,581,746
Held to maturity investments – term deposits		40,801,837	49,700,328
Trade and other receivables		1,842,593	3,466,276
		44,520,749	54,748,350
Assets classified as held for sale	4	–	350,000
Total current assets		44,520,749	55,098,350
Non-current assets			
Available-for-sale financial assets		7,284,502	1,624,251
Property, plant and equipment		82,996	80,001
Deferred tax assets		–	1,796
Total non-current assets		7,367,498	1,706,048
Total assets		51,888,247	56,804,398
Liabilities			
Current liabilities			
Trade and other payables		1,846,984	1,799,049
Provisions		632,103	472,837
		2,479,087	2,271,886
Liabilities associated with discontinued operations	4	–	678,379
Total current liabilities		2,479,087	2,950,265
Non-current liabilities			
Provisions		116,892	104,728
Total non-current liabilities		116,892	104,728
Total liabilities		2,595,979	3,054,993
Net assets		49,292,268	53,749,405
Equity			
Contributed equity		231,750,374	231,752,170
Reserves		15,653,086	9,989,496
Accumulated losses		(198,111,192)	(187,992,261)
Total equity		49,292,268	53,749,405

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 2017

Attributable to owners of Silex Systems Limited				
	Contributed equity \$	Reserves \$	Accumulated losses \$	Total \$
Balance at 30 June 2015	231,753,076	10,296,433	(184,595,373)	57,454,136
Net (loss) for the year	–	–	(3,396,888)	(3,396,888)
Other comprehensive income	–	(334,632)	–	(334,632)
Total comprehensive income for the year	–	(334,632)	(3,396,888)	(3,731,520)
Transactions with owners in their capacity as owners				
Employee shares and options – value of employee services	–	27,695	–	27,695
Deferred tax recognised directly in equity	(906)	–	–	(906)
	(906)	27,695	–	26,789
Balance at 30 June 2016	231,752,170	9,989,496	(187,992,261)	53,749,405
Net (loss) for the year	–	–	(10,118,931)	(10,118,931)
Other comprehensive income	–	5,663,590	–	5,663,590
Total comprehensive income for the year	–	5,663,590	(10,118,931)	(4,455,341)
Transactions with owners in their capacity as owners				
Deferred tax recognised directly in equity	(1,796)	–	–	(1,796)
	(1,796)	–	–	(1,796)
Balance at 30 June 2017	231,750,374	15,653,086	(198,111,192)	49,292,268

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 June 2017

	2017 \$	2016 \$
Cash flows from operating activities		
Receipts from customers and government grants (inclusive of GST)	2,672,348	5,467,115
Payments to suppliers and employees (inclusive of GST)	(13,157,109)	(13,835,072)
Interest received	1,449,905	1,942,298
Interest paid	(11)	(67)
Net cash (outflows) from operating activities	(9,034,867)	(6,425,726)
Cash flows from investing activities		
Proceeds from held to maturity investments – term deposits	8,898,491	4,473,123
Payments for property, plant and equipment	(31,906)	(42,608)
Proceeds from sale of property, plant and equipment	289,100	2,586,838
Proceeds from sale of intangibles	175,000	–
Net cash inflows from investing activities	9,330,685	7,017,353
Cash flows from financing activities		
Net cash (outflows) from financing activities	–	–
Net increase in cash and cash equivalents	295,818	591,627
Cash and cash equivalents at the beginning of the financial year	1,581,746	987,777
Effects of exchange rate changes on cash	(1,245)	2,342
Cash and cash equivalents at end of the financial year*	1,876,319	1,581,746
*Held to maturity investments excluded from Cash and cash equivalents	40,801,837	49,700,328

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2017

Note 1 Segment information

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 2017 is contained in the consolidated income statement.

Segment assets were \$44,468,260 at 30 June 2017 compared to \$54,594,394 at 30 June 2016.

Segment liabilities were \$2,595,979 at 30 June 2017 compared to \$2,376,614 at 30 June 2016.

(i) 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.

	2017 \$	2016 \$
Segment result	(10,211,489)	(4,700,759)
Net (loss) before income tax from continuing operations	(10,211,489)	(4,700,759)

Note 2 Revenue

	2017 \$	2016 \$
From continuing operations		
Interest income	1,365,646	1,617,655
	1,365,646	1,617,655
From discontinued operations (note 4)		
License fees	131,148	1,821,297
Recoverable project costs from IQE	130,487	216,786
Sale of goods	–	93,151
Interest income	3,751	22,717
	265,386	2,153,951

NOTES TO THE FINANCIAL STATEMENTS

30 June 2017

Note 3 Other income

	2017 \$	2016 \$
From continuing operations		
Research and development tax incentive	940,847	1,459,095
Profit on sale of property, plant and equipment	–	8,733
	940,847	1,467,828
From discontinued operations (note 4)		
Research and development tax incentive	41,058	2,002,079
Profit on sale of property, plant and equipment	114,000	1,340,055
	155,058	3,342,134

(i) Research and development tax incentive

Research and development tax incentive income of \$981,905 (2016: \$3,461,174) was recognised as Other income by the Company during the year. The Company has met the conditions of the tax incentive.

NOTES TO THE FINANCIAL STATEMENTS

30 June 2017

Note 4 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, Silix announced a decision had been made to cease business operations at Solar Systems. During the year ended 30 June 2017, the residual assets held for sale were sold. On 15 September 2015, Silix announced that Translucent had signed a License and Assignment Agreement with IQE Plc with the technology commercialisation program subsequently transferred to IQE in late 2015. As a result, these two former business segments, net of cash, 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.

	2017 \$	2016 \$
Revenue (note 2)	265,386	2,153,951
Other income (note 3)	155,058	3,342,134
Expenses	(327,886)	(4,192,214)
Profit before income tax	92,558	1,303,871
Income tax expense	-	-
Profit after income tax of the discontinued operations	92,558	1,303,871

	2017 \$	2016 \$
Net cash inflows/(outflows) from operating activities	1,227,061	(2,114,844)
Net cash inflows from investing activities	464,000	3,064,790
Net cash inflows from the discontinued operations	1,691,061	949,946

	2017 \$	2016 \$
Property, plant and equipment	-	175,000
Intangible assets	-	175,000
Total assets of disposal group held for sale	-	350,000

	2017 \$	2016 \$
Trade and other payables	-	(303,819)
Provisions	-	(374,560)
Total Liabilities associated with discontinued operations	-	(678,379)

NOTES TO THE FINANCIAL STATEMENTS

30 June 2017

Note 5 Contingent liabilities and commitments in accordance with Purchase and Sale Agreement Term Sheet

(i) 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). In January 2017, the Term Sheet was extended to 31 March 2017 and in April 2017, the Term Sheet was further extended to 31 August 2017. The Term Sheet and extensions provide terms of a proposed Purchase and Sale Agreement (PSA) whereby Silex may acquire the shares owned by GENE and GEHA (together as 'GEH') representing 76% of the issued capital of GE-Hitachi Global Laser Enrichment LLC (GLE). Silex has the exclusive right to assign its rights to acquire GEH's 76% equity stake in GLE in full or in part to new investors.

Whilst the Term Sheet and extensions are principally Non-Binding, there are certain Binding Obligations. Silex has a Binding Funding Agreement Obligation and is required to make certain reimbursements to the Sellers (GEH). Expenses recorded in the current year amounted to \$6,668,102.

In addition, if a binding PSA is signed then Silex and any of its assignees are required to make additional funding payments to GEH. As per the Term Sheet signed in April 2016 and as extended, in the event that Silex elects to purchase the full 76% of GEH equity that is available for the sale and a binding PSA is executed, the maximum amount of additional funding payable by Silex (a contingent liability) is US\$1,125,000 for the 15 months to 31 March 2017. At the current point in time, the timing of any outflow of funds is uncertain and subject to Silex signing a binding PSA and either fully or partially assigning its rights under the Term Sheet to new investors.

Refer to Note 7 for details of the amendment and extension of the Term Sheet after year end.

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

Under the Term Sheet Binding Funding provisions, Silex is required to reimburse the Sellers for a further US\$1,000,000 for expenditure for the 2 months to 31 August 2017.

Note 6 Dividends

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2017

Note 7 Events occurring after reporting date

Between 30 June 2017 and the date of this report, the IQE Plc share price (LON:IQE) has increased considerably. Combined with movements in exchange rates, the value of the shares (disclosed as Available-for-sale financial assets) has increased by over approximately \$4,500,000 since 30 June 2017. 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 2017 will be recognised in the financial statements for the year ended 30 June 2018.

As announced to the ASX on 1 September 2017, Silex and GE-Hitachi Nuclear Energy (GEH) reached agreement to further amend and extend the Term Sheet for the exclusive assignable option over GEH's 76% interest in GLE. The amended Term Sheet, which will remain in force until either execution of a binding Purchase and Sales Agreement (PSA) or the termination of negotiations, contemplates Silex taking a majority interest in GLE. Pursuant to the amended Term Sheet Silex will continue to contribute 76% of the funding of GLE's Wilmington, North Carolina operations in addition to funding Silex's laser development activities at its Lucas Heights facility south of Sydney. This funding support for the 6 months ending 31 December 2017 is expected to be approximately \$6.5 million.

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

Note 8 Basis of preparation

This concise financial report relates to the consolidated entity consisting of Silex Systems Limited and the entities it controlled at the end of, or during, the year ended 30 June 2017. The accounting policies have been consistently applied to all years presented, unless otherwise stated below.

The financial statements in this report are presented in Australian dollars.

DIRECTORS' DECLARATION

30 June 2017

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2017 as set out on pages 39 to 49 complies with Accounting Standard AASB 1039: *Concise Financial Reports*.

The concise financial report is an extract from the full financial report for the year ended 30 June 2017. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

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

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



Dr M P Goldsworthy
CEO/MD



Mr C D Wilks
Director

Sydney, 22 September 2017

INDEPENDENT AUDITOR'S REPORT

to the members of Silex Systems Limited



Report on the audit of the concise financial report

Our opinion

In our opinion, the accompanying concise financial report of Silex Systems Limited (the Company) and its controlled entities (together, the Group) for the year ended 30 June 2017 complies with Australian Accounting Standard AASB 1039 *Concise Financial Reports*.

What we have audited

The Group concise financial report derived from the financial report of the Group for the year ended 30 June 2017 comprises:

- the consolidated balance sheet as at 30 June 2017
- the consolidated income statement for the year then ended
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the related notes.

Basis for opinion

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

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

Independence

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

Concise financial report

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

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INDEPENDENT AUDITOR'S REPORT

to the members of Silex Systems Limited



The financial report and our report thereon

We expressed an unmodified audit opinion on the financial report in our report dated 22 September 2017. That report also includes:

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

Responsibilities of the directors for the concise financial report

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

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

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

Report on the remuneration report

The following paragraphs are copies from our report on the remuneration report of Silex Systems Limited for the year ended 30 June 2017.

Our opinion on the remuneration report

We have audited the remuneration report included in pages 26 to 34 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of Silex Systems Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

PricewaterhouseCoopers

PricewaterhouseCoopers

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

David Ronald
Partner

Sydney
22 September 2017

SHAREHOLDERS' INFORMATION

30 June 2017

1. Information relating to shareholders as at 6 September 2017

(a) Distribution schedule

1–1,000	1,978
1,001–5,000	2,370
5,001–10,000	786
10,001–100,000	1,093
100,001 and over	163
Total number of holders of each class of security	6,390
Voting rights	
– on a show of hands	
– on a poll	
Percentage of total holding held by the largest 20 holders	52.77%
Number of total holding less than a marketable parcel of shares	2,330
Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	29,801,030
Global X Management Company	13,097,044

SHAREHOLDERS' INFORMATION

30 June 2017

(b) Names of Twenty Largest Holders as at 6 September 2017

Name	Number of securities	Percentage held
Jardvan Pty Ltd	29,801,030	17.48%
HSBC Custody Nominees (Australia) Limited	15,686,219	9.20%
Mr Paul Cozzi	7,870,000	4.62%
Majenta Holdings Pty Ltd	5,703,923	3.35%
Polly Pty Ltd	4,073,863	2.39%
J P Morgan Nominees Australia Limited	3,448,670	2.02%
Throvena Pty Ltd	2,978,203	1.75%
Citicorp Nominees Pty Limited	2,804,055	1.64%
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	1,749,999	1.03%
Old Digger Pty Ltd	1,629,865	0.96%
Houghton Waterville Pty Ltd	1,000,000	0.59%
Quadrangle Nominees Limited	847,245	0.50%
Mithena Holdings Pty Ltd	817,139	0.48%
Mr Xiangyang Wu	808,870	0.47%
Hillboi Nominees Pty Ltd	779,295	0.46%
Mr Luca Rotter + Ms Jane Louise Abbott	775,000	0.45%
	89,958,335	52.77%

2. Interest of directors in shares as at 6 September 2017

	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 6 September 2017

As at 6 September 2017, no securities were subject to voluntary escrow.

4. Unquoted equity securities as at 6 September 2017

There were no unquoted equity securities at 6 September 2017.

COMPANY DIRECTORY

DIRECTORS

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

AUDIT COMMITTEE

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

PEOPLE & REMUNERATION COMMITTEE

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





COMPANY SECRETARY

Ms J E Ducie

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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Sydney NSW 2000, Australia

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 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

