ALEXIUM
SPECIALTY CHEMICALS AND SOLUTIONS

Innovation. Growth. Leadership.

HALF-YEAR **FINANCIAL** REPORT

For the six months ended 31 December 2016

Alexium International Group Limited
ABN 91 064 820 408

Cover Letter for the Half Year Financial Report for the six months ended 31 December 2016

Attached is the fiscal half-year report for the period ending 31 December, 2016 for Alexium ("Alexium", "the Company").

Alexium continues to see forward momentum in both revenue and gross profit from increased order volume with existing customers and new customers coming on line. Chemistry sales grew over 1000% to $11,193,372 for the period, an increase from $973,121 from the previous half year report, from core product sales. The group's net loss for the period, $5,806,993, down from $9,008,753 for the half-year ended 31 December 2015, is related to increased sales revenue and improved margins on customer orders.

Infrastructure, supply chain systems and purchasing strategy implemented during 2016 continue to drive gross profit sharply upward. Alexium's top-line growth from 2015 to 2016 (from $1.0M to $13.3M AUD) was largely due to the success of winning new business not only due to the performance of Alexium's chemistries, but by offering those chemistries at competitive price points to much larger competitors. As the scale of Alexium's sales have increased, the company is now able to buy raw materials in bulk, a larger global footprint has dramatically reduced the shipping component of our COGS and air freight during scale-up is being replaced by far less expensive conventional ocean freight. The effect of these strategic efforts has resulted in a 14 percentage point increase in gross profit from the first half to the second half of 2016 and gross profit on new specialty chemistry sales since the beginning of 2017 have exceeded 30%. Over the course of 2017, as more product lines achieve the same economies of scale, Alexium is forecasting average gross profits across all product lines to exceed 40%.

Commenting on the reporting period, Alexium Deputy CEO Dirk Van Hyning stated: "The second half of 2016 realized the fruition of a lot of strategic directives implemented over several years. As Alexium continues to expand our sales in FR and further expand our product offering into adjacent markets such as cooling chemistry and beyond, we now have the infrastructure to compete on pricing with anyone and realize healthy margins for our shareholders."

Lastly, the increased customer appetite for both Alexicool and Alexiflam has been extraordinary. These orders continue to come through the system every day, and we are producing chemistry and shipping in tote sizes on a weekly basis. Due to the steady flow of customer orders, a healthy forecast, and ongoing revenue as well as shortened debtor terms, this has placed Alexium in a favorable position to utilize a debt facility to purchase inventory. Hence there is no requirement to raise capital to fund Alexium's projects to meet customers order needs. This strategic decision will help accelerate Alexium's path towards cash neutrality, expected within the second quarter 2017.

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SUPPLEMENTARY APPENDIX 4D INFORMATION

ALEXIUM INTERNATIONAL GROUP LIMITED
ABN 91 064 820 408

This information is provided to the Australian Securities Exchange under ASX Listing Rule 4.2A (3).
This information should be read in conjunction with the most recent annual financial report.

Current reporting period: 1 July 2016 to 31 December 2016
Previous reporting period: 1 July 2015 to 31 December 2015

				$A
Revenue from ordinary activities	Up	813%	to	$11,412,004
Loss from ordinary activities after tax attributable to members	Down	36%	to	($5,806,993)
Net loss for the period attributable to members	Down	36%	to	($5,806,993)

Dividends	Amount per security	Franked amount per security
Interim dividend declared this period	Nil	Nil
Interim dividend declared and paid in previous corresponding period	Nil	Nil
Final dividend 2016	Nil	Nil

Explanation of Revenue from ordinary activities

The Group's revenue during the reporting period represents chemical sales to customers in bedding, epoxys and resins, and other key target markets, grant income from the Battelle Memorial Institute for chemical research, and interest received on the Group's bank account balances. While grant income continues to contribute to the overall revenue for the Group, the focus moving forward will be continued growth in the sale of environmentally friendly flame retardant and phase change chemistry in the textile industry and adjacent markets.

The primary contributor to the increase in revenue between the current period and previous period is due to a significant increase in sales of chemicals to customers. The group has realized a 10 fold increase in chemical sales almost entirely as a result of winning new business. Accountable for this increase is both a 900% increase in flame retardant and auxiliary chemical sales in addition to over $1.5 million in sales for Alexium's newest commercialized product, Alexicool. This growth trend in the cooling market is expected to continue to propel Alexium's phase change chemistry forward into the second half of 2017 as current customers increase quantities and new customers come online.

SUPPLEMENTARY APPENDIX 4D INFORMATION

Explanation of Loss from ordinary activities after tax attributable to members and Net loss for the period attributable to members

The group's net loss for the period, $5,806,993 down from $9,008,753 for the half-year ended 31 December 2015, is related to increased sales revenue and improved margins on customer orders. Gross profit margin on revenue from chemical sales rose 5.6% over the previous period. This trend will continue moving forward because of several factors. First, in this financial period, Alexium continued to increase its scale-up efforts of both Alexiflam™ and Alexicool™ chemistries with a wide range of customers across multiple markets. Second, substantial improvements have been realized in purchasing power for raw materials and processing as volume has increased. Finally, improvements in the supply chain systems to include partnerships with global distributors, carriers and manufacturers have reduced the cost of sales to our international customers. For the period, Alexium's continued development work with customers and sales of trial chemistry at cost or gratis directly contributed to this gross margin. However, as of year-end most of these opportunities have evolved to full scale commercialization.

Net Tangible Assets	31/12/16	31/12/15
Net Tangible Asset backing per ordinary shares	2.12 cents	3.71 cents

Controlled entities acquired or disposed of

There were no entities acquired or disposed of during the current reporting period.

Additional dividend/distributions information

Not applicable

Dividend/distribution reinvestment plans

None

Associates and Joint Venture entities

None

DIRECTORS' REPORT

Your Directors submit their report for the half-year ended 31 December 2016.

The names of the Group's Directors in office during the half-year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr Gavin Rezos
Mr Nicholas Clark
Mr Craig Metz
Brigadier General Stephen Cheney
Mr Craig Smith-Gander (resigned 13 February 2017)

RESULTS AND REVIEW OF OPERATIONS

The Group's net loss attributable to members of the Group for the half-year ended 31 December 2016 was $5,806,993 (half-year ended 31 December 2015 net loss: $9,008,753). There was a minor increase of 2% in expenditures on operations compared to the corresponding year but a significant decline in the operating expenditures as a percent of revenue. For the reporting period, overhead and administrative expenses were 52% of total revenue compared to 464% for the previous period. Increased expenditures for employee benefits, research and development, and travel were contrasted by declines in professional fee and marketing expenditures. Total employed staff grew to thirty-seven from thirty-four at the end of the prior period, which equates to over $308,433 in revenue generated per employee compared to approximately $36,000 for the period ended 31 December 2015. Our research and development efforts have resulted in opportunities which are likely to result in technology licensing deals and new product lines which will drastically increase revenue and promote healthier margins. Further, the sales team has expanded its geographical reach, time spent on the road developing a growing customer base, and time spent collaborating with current customers. In addition to this global outreach, at the end of the period Alexium was awarded new business in the bedding industry which is forecasted to result in over US $3.5 million in the next twelve months. Finally, Alexium incurred expenses related to the build out of its new standalone facility. This facility will allow Alexium to increase its efficiency and reduce the length of development cycles for new customer opportunities, however an initial investment was needed to create lab space and purchase more equipment to increase throughput. As at 31 December 2016 the cash position was $12,357,122 (30 June 2016: $11,218,556) and the Group had 302,509,198 ordinary shares on issue (30 June 2016: 298,736,791)

SUBSEQUENT EVENTS

Except for events disclosed elsewhere in this report, no other significant event has occurred since the end of the financial year that may have a significant impact on the financial position of the Group.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7 of the consolidated half year financial statements.

Dated this 27th day of February 2017.

Signed in accordance with a resolution of the Directors.

Nicholas Clark

Nicholas Clark
Chief Executive Officer

Grant Thornton

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Auditor's Independence Declaration
To The Directors of Alexium International Group Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Alexium International Group Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 27 February 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Consolidated	
		31 December 2016	31 December 2015
	Note	$	$
Revenue	3	11,412,004	1,249,778
Cost of Sales		(11,301,608)	(1,037,355)
Administrative and other expenses		(1,195,006)	(944,189)
Employee benefits expense		(2,307,682)	(1,847,440)
Depreciation and amortisation		(144,092)	(103,036)
Interest expenses		(2,186)	(133)
Research and development		(1,058,051)	(951,360)
Professional expenses		(732,276)	(1,553,930)
Marketing and external affairs		(357,894)	(402,884)
Share-based payments	6	(120,202)	(3,418,204)
Loss before income tax		(5,806,993)	(9,008,753)
Income tax benefit		-	-
Loss attributable to members of the Company		(5,806,993)	(9,008,753)
Other comprehensive income for the period			
Items that will not be reclassified to profit or loss		-	-
Foreign Currency Translation		165,942	507,632
Total comprehensive income / (loss) for the period		(5,641,051)	(8,501,121)
Total comprehensive income / (loss) attributable to the members of the Company		(5,641,051)	(8,501,121)
Loss per share (cents)			
Basic		(2.61)	(4.15)
Diluted		(2.61)	(4.15)

This condensed consolidated statement of profit or loss or other comprehensive income should be read in conjunction with the accompanying notes to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2016

		Consolidated	
		31 December 2016	30 June 2016
	Note	$	$
Current Assets			
Cash and cash equivalents	4	12,357,122	11,218,556
Trade and other receivables		2,340,633	191,762
Other current assets		2,211,925	1,747,538
Total Current Assets		16,909,680	13,157,856
Non-Current Assets			
Other financial assets		43,502	37,094
Property, plant and equipment	8	2,754,458	816,738
Intangible assets		156,315	148,454
Total Non-Current Assets		2,954,275	1,002,286
Total Assets		19,863,955	14,160,142
Current Liabilities			
Trade and other payables		5,856,923	2,788,092
Provisions		94,051	67,606
Other liabilities - deferred income		27,108	18,365
Total Current Liabilities		5,978,082	2,874,063
Non-Current Liabilities			
Trade and other payables		488,697	18,549
Derivative liability	9	1,245,670	-
Borrowings	9	5,567,803	-
Total Non-Current Liabilities		7,302,170	18,549
Total Liabilities		13,280,252	2,892,612
NET ASSETS		6,583,703	11,267,530
EQUITY			
Contributed equity	5	52,471,501	51,634,479
Reserves	7	9,337,707	9,051,563
Accumulated losses		(55,225,505)	(49,418,512)
TOTAL EQUITY		6,583,703	11,267,530

This condensed consolidated statement of financial position should be read in conjunction with the accompanying notes to the financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Contributed equity $	Reserves $	Consolidated Accumulated losses $	Total $
Balance at 1 July 2016	51,634,479	9,051,563	(49,418,512)	11,267,530
Loss for the period	-	-	(5,806,993)	(5,806,993)
Foreign currency translation	-	165,942	-	165,942
Total comprehensive income / (loss)	-	165,942	(5,806,993)	(5,641,051)
Transactions with owners in their capacity as owners:				
Options exercised	483,583	-	-	483,583
Share-based payment	178,690	120,202	-	298,892
Share-based payment in lieu of salary	174,749	-	-	174,749
Balance at 31 December 2016	52,471,501	9,337,707	(55,222,505)	6,583,703

	Contributed equity $	Reserves $	Consolidated Accumulated losses $	Total $
Balance at 1 July 2015	41,363,396	4,417,082	(33,973,641)	11,806,837
Loss for the period	-	-	(9,008,753)	(9,008,753)
Foreign currency translation	-	507,632	-	507,632
Total comprehensive income / (loss)	-	507,632	(9,008,753)	(8,501,121)
Transactions with owners in their capacity as owners:				
Performance rights expensed	-	395,850	-	395,850
Options exercised	3,496,573	-	-	3,496,573
Share-based payment	-	3,022,354	-	3,022,354
Share-based payment in lieu of salary	557,060	-	-	557,060
Balance at 31 December 2015	45,417,029	8,342,918	(42,982,394)	10,777,553

This condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes to the financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Note	Consolidated 31 December 2016 $	Consolidated 31 December 2015 $
Cash flows from operating activities			
Cash receipts in the course of operations		9,330,322	1,240,212
Cash payments to suppliers and employees		(13,939,844)	(6,715,034)
Goods & Services tax received from ATO		77,184	30,608
Interest and other costs of finance paid		(5,415)	-
Interest received		8,795	24,418
Net cash flows used in operating activities		(4,528,958)	(5,419,796)
Cash flows from investing activities			
Increase in intangibles		(36,804)	(41,122)
Purchase of property, plant and equipment		(1,544,608)	(64,568)
Other non-current assets		(5,404)	-
Proceeds from disposal of property, plant and equipment		547	-
Net cash flows used in investing activities		(1,586,269)	(105,690)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		-	3,496,573
Proceeds from exercise of share options		483,583	-
Proceeds from borrowings		6,674,676	-
Transaction costs related to loans and borrowings		(126,085)	-
Net cash flows provided by financing activities		7,032,174	3,496,573
Net increase in cash and cash equivalents		916,947	(2,028,913)
Cash and cash equivalents at beginning of period		11,218,556	11,621,603
Effect of exchange rate changes on cash and cash equivalents		221,619	603,279
Cash and cash equivalents at end of period	4	12,357,122	10,195,969

This condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes to the financial statements

1. CORPORATE INFORMATION

The financial report of Alexium International Group Limited (the Company) for the half-year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 27 February 2017.

Alexium International Group Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Securities Exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated half year financial statement does not include all of the notes of the type normally included within the annual financial report and therefore 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.

The consolidated half year financial statements should be read in conjunction with the annual financial report of Alexium International Group Limited as at 30 June 2016.

It is also recommended that the consolidated half year financial statements be considered together with any public announcements made by Alexium International Group Limited and its controlled entities ("the Group") during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(a) Basis of Preparation

The consolidated half year financial statement is a general-purpose financial report, which has been prepared in accordance with the requirement of the Corporations Act 2001, applicable Accounting Standards, including AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements. The consolidated half year financial statement has been prepared on a historical cost basis, except where stated. For the purpose of preparing the consolidated half year financial statements, the half-year has been treated as a discrete reporting period.

(b) New and Revised Accounting Requirements Applicable to the Current Half-Year Reporting Period

The accounting policies and methods of computation adopted in the preparation of the consolidated half year financial statements are consistent with those adopted and disclosed in the Group's 2016 annual financial report for the financial year ended 30 June 2016. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards. Alexium International Group Limited has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current half-year. The application of the new or revised Standards and Interpretations does not have a material impact on the accounting policies or disclosures.

(c) Principles of Consolidation

The consolidated half year financial statements incorporate all of the assets, liabilities and results of the parent (Alexium International Group Limited) and all of the subsidiaries (including any structured entities). Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidation at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

(d) Significant accounting policies

Share based payments

Employees (including senior executives) and suppliers of the Group receive remuneration in the form of share-based payments, whereby employees and suppliers render services as consideration for equity instruments (equity-settled transactions).

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 2(e).

That cost is recognized in employee benefits expense (for employees) and respective profit or loss accounts (for suppliers), together with a corresponding increase in equity, over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

(e) Significant accounting judgements, estimates and assumptions

The key assumptions concerning the future and other key sources of estimiating uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the condensed consolidated half year financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The Group initially measures the cost of cash-settled transactions with employees using a binomial model to determine the fair value of the liability incurred. For cash-settled share-based payment transactions, the liability needs to be remeasured at the end of each reporting period up to the date of settlement, with any changes in fair value recognised in the profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. For the measurement of the fair value of equity-settled transactions with employees at the grant date, the Group uses a binomial model.

(f) Segment reporting

For management purposes, the Group is organised into one main operating segment, which involves the development of a patented technology known as "Reactive Surface Technology" (RST). Alexium is the exclusive licensee of this particular patent and has applied for additional patents in its own capacity around the world. All of the Group's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

(g) Going concern

The consolidated half year financial statement has been prepared on a going concern basis which assumes the realisation of assets and extinguishment of liabilities in the normal course of business.

3. REVENUE

	Consolidated	
	31 December 2016 ($)	31 December 2015 ($)
Sale of goods	11,193,372	973,121
Interest income	8,795	24,427
Grant income	209,837	252,230
	11,412,004	1,249,778

4. CASH AND CASH EQUIVALENTS

For the purpose of the half-year cash flow statement, cash and cash equivalents are comprised of the following:

	Consolidated	
	31 December 2016 ($)	31 June 2016 ($)
Cash at bank and in hand	12,357,122	11,218,556
	12,357,122	11,218,556

5. CONTRIBUTED EQUITY

(a) Shares Issued

The number of ordinary shares on issue at 31 December 2016 are 302,509,198 (30 June 2016: 298,736,791).

Movements in Shares

	31 December 2016	
	Number	$
Balance of ordinary shares at beginning of period	298,736,791	51,634,479
Shares issued on conversion of performance rights	-	-
Shares issued on conversion of options	3,177,083	483,583
Shares issued in lieu of salary/service	595,324	353,439
Balance of ordinary shares at end of period	302,509,198	52,471,501

(b) Share Options Issued

At 31 December 2016, 6,916,626 (30 June 2016: 7,863,607) free attaching unlisted options were outstanding and 7,600,000 (30 June 2016: 9,018,750) share based payment options were outstanding. In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

2016	Grant date	Exercise Price	Expiry date	Balance at beginning of period	Granted during the period	Exercised during the period	Expired during the period	Balance at end of period
Unlisted options	30/11/12	$0.08	31/12/16	1,500,000	-	(1,500,000)	-	-
Unlisted options	10/11/14	$0.25	09/11/16	946,981	-	(858,333)	(88,648)	-
Unlisted options	10/11/14	$0.198	09/11/17	750,000	-	(375,000)	-	375,000
Unlisted options	01/09/14	$0.18	31/08/17	175,000	-	-	-	175,000
Unlisted options	13/05/15	$0.70	31/12/17	500,000	-	-	-	500,000
Unlisted options	13/05/15	$0.80	31/12/17	1,000,000	-	-	-	1,000,000
Unlisted options	20/05/15	$0.13	31/08/17	30,000	-	-	-	30,000
Unlisted options	06/05/15	$0.75	07/05/18	6,916,626	-	-	-	6,916,626
Unlisted options	06/08/15	$0.16	31/08/17	970,000	-	(350,000)	-	620,000
Unlisted options	01/10/15	$0.75	30/09/20	1,500,000	-	-	-	1,500,000
Unlisted options	04/11/15	$0.18	31/08/17	1,125,000	-	-	-	1,125,000
Unlisted options	09/11/15	$1.207	09/11/17	125,000	-	-	-	125,000
Unlisted options	09/11/15	$1.314	09/11/17	125,000	-	-	-	125,000
Unlisted options	26/02/16	$0.20	31/08/17	1,218,750	-	(93,750)	-	1,125,000
Unlisted options	04/11/16	$0.75	04/11/19	-	300,000	-	-	300,000
Unlisted options	04/11/16	$1.25	04/11/19	-	300,000	-	-	300,000
Unlisted options	04/11/16	$1.75	04/11/19	-	300,000	-	-	300,000
				16,882,357	900,000	(3,177,083)	(88,648)	14,516,626

(c) Performance Rights Issued

The number of performance rights on issue at 31 December 2016 are 3,250,000 (30 June 2016: 3,250,000).

Movements in Performance Rights

	31 December 2016 Number	31 December 2016 $
Balance of performing rights at July 1, 2016	3,250,000	395,850
Performance rights forfeited	-	-
Performance rights converted to shares	-	-
Performance rights issued	-	-
Balance of performance rights at December 31, 2016	3,250,000	395,850

During the six-month ended 31 December 2016, no performance rights were forfeited, converted or issued.

6. SHARE-BASED PAYMENTS

(a) Recognised share-based payment expenses - options

2016	31 December 2016 Number	31 December 2016 Value per option $	31 December 2016 $
- Services rendered	900,000	0.133558	120,202
			120,202

The fair values of options granted were determined using a variation of the binomial option pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

2016		Services Rendered	
Spot price of the asset	0.59	0.59	0.59
Exercise price	0.75	1.25	1.75
Risk free rate (%)	1.71%	1.71%	1.71%
Start date	04/11/2016	04/11/2016	04/11/2016
Expiry date	04/11/2019	04/11/2019	04/11/2019
Annual volatility of assets	60.0%	60.0%	60.0%

(b) Summary of Options Granted

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share-based payments options during the half-year to 31 December 2016.

2016	Half-Year Ended			
	31 December 2016 No.	31 December 2016 WAEP	31 December 2015 No.	31 December 2015 WAEP
Outstanding at the start of the period	9,018,750	$0.39	29,825,000	$0.36
Granted/reinstated during the period	900,000	$1.25	4,750,000	$0.41
Exercised/expired/cancelled during the period	(2,318,750)	$0.12	(15,956,833)	$0.22
Outstanding at the end of the period	7,600,000	$0.57	18,618,167	$0.49

The weighted average remaining contractual life of the share options outstanding at 31 December 2016 is 1.44 years (31 December 2015: 2.08 years).

7. RESERVES

	Option premium reserve	Performance rights reserve	Foreign currency translation reserve	Total Reserve
Balance at 1 July 2016	7,083,657	759,360	1,208,546	9,051,563
Share based payment expense	120,202	-	-	120,202
Foreign currency translation differences arising during the year	-	-	165,942	165,942
Balance at 31 December 2016	7,203,859	759,360	1,374,488	9,337,707

8. PROPERTY, PLANT AND EQUIPMENT

	Furniture & Equipment	Leased assets	Construction In Progress	Total
Cost or valuation	**$**	**$**	**$**	**$**
Balance at 30 June 2016	872,996	448,733	323,445	1,645,174
Additions	1,505,824	673,994	122,305	2,302,123
Disposals	(107,614)	-	(323,446)	(431,060)
Foreign exchange movements	79,334	44,355	4,997	128,686
Balance at 31 December 2016	2,350,540	1,167,082	127,301	3,644,923
Depreciation and impairment				
Balance at 30 June 2016	478,993	349,443	-	828,436
Depreciation	100,157	43,935	-	144,092
Disposals	(102,311)	-	-	(102,311)
Foreign exchange movements	6,421	13,828	-	20,249
Balance at 31 December 2016	483,260	407,206	-	890,466
Net book value				
At 30 June 2016	394,003	99,290	323,445	816,738
At 31 December 2016	1,867,280	759,876	127,301	2,754,457

9. BORROWINGS

On December 30, 2016, the Company entered a senior secured credit facility with institutional lenders to increase working capital for purchase of materials required to fulfill sales orders. The USD$5 million facility carries a fifteen-month term and 15% annual interest rate. The borrowings have been measured at its fair value through profit or loss and measured at amortised cost.

Derivative liability

Under the agreement, warrants will be issued up to 50% of the borrowings, with 75 cents exercise price, for a period of three years. The borrowing is a hybrid instrument with liability and derivative liability components. The warrants include an embedded derivative relating to the exercise price that needs to be measured at fair value and separated with changes in value being recorded in profit or loss. Derivative liability has been valued using a Black-Scholes option pricing model which approximates the results that would have been achieved by using a binomial lattice Monte Carlo simulation.

The borrowings are carried at amortised cost, a gain or loss is recognised in profit or loss when the borrowings are derecognised or impaired, and through the amortisation process. The Company allocates interest payments over the term of the borrowings at a constant rate on the carrying amount.

10. DIVIDENDS

No dividend has been declared or paid during the half-year or the previous corresponding period.

The Company does not have any franking credits available for current or future years, as it is not in a tax paying position.

11. SUBSEQUENT EVENTS

Except for events disclosed elsewhere in this report, no other significant event has occurred since the end of the financial year that may have a significant impact on the financial position of the group.

12. COMMITMENTS AND CONTINGENCIES

(a) Commitments

There have been no material changes to the commitments as disclosed in the annual report to 30 June 2016.

(b) Contingencies

There have been no material changes to the contingencies as disclosed in the annual report to 30 June 2016.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Alexium International Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the Group are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half-year ended on that date of the Consolidated entity; and

(ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001;

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

On behalf of the Board

Nicholas Clark
Chief Executive Officer
27 February 2017

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Independent Auditor's Review Report
To the Members of Alexium International Group Limited

We have reviewed the accompanying half-year financial report of Alexium International Group Limited ("Company"), which comprises the consolidated financial statements being the condensed consolidated statement of financial position as at 31 December 2016, and the condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

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

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

Independence

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

Conclusion

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

a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

M J Hillgrove
Partner - Audit & Assurance

Perth, 27 February 2017