

QUARTERLY ACTIVITIES REPORT FOR THE PERIOD ENDED 30 JUNE 2017



ALEXIUM
SPECIALTY CHEMICALS AND SOLUTIONS

Attached is the quarterly report for the period ending June 30, 2017 for Alexium (“Alexium”, “the Company”).



Highlights From The Quarter

Alexium realized another quarter of solid growth and improving financial performance, with highlights being:

- Cash receipts during the month of June exceeded cash outflows by A\$350,000, resulting in Alexium’s first ever cash positive month.
- Cash receipts of A\$6.7M during the period represent a 6% increase over the previous quarter. Margins were significantly higher such that COGS required to produce cash were sharply lower relative to the previous period. The net cash outflow for the quarter was 50% lower than the previous quarter, from an outflow of A\$5.9M in Q3 down to an outflow of A\$3.0M in Q4.
- Cash receipts for the past six months of A\$13.3M exceed calendar year 2016 entire cash receipts of A\$11.1M by 19.8%.
- At the end of the period, Alexium had A\$1.5M in receivables in addition to A\$3.4M in cash and cash equivalents.
- Increasing cash generation from improving financial performance has enabled Alexium to receive offers of new working capital facilities on more advantageous terms.





Shifting Focus From Top Line To Bottom Line

In 2016, the primary focus of the Company was to increase its presence, name recognition, and reputation in the flame retardant chemical industry. As part of that effort, Alexium had to competitively price its products at a time when we had not reached efficient economies of scale. The lack of this scale typically meant paying up to twice the price of raw materials in the short term from low volume or irregular orders which resulted in low or negative margins. In 2017, with a market presence and reputation for quality and supply established leading to larger and more regular orders, for economies of scale, the Company shifted its focus to profitability. As Alexium's business in bedding reached economies of scale very quickly and realizing healthy margins, we began to address other markets on the basis of margin and long-term profitability as a key metric.

This quarter's financials, and more specifically the Company cash-positive month of June, is the initial result of that new profit-centric strategy. Healthy margin business, specifically in bedding, increased over the period while low margin business was reduced.

Alexicool™ – Continuing Success In A Dynamic Market Sector

Mattress Components – While Alexium continues to focus significant efforts on large, long-term business opportunities in FR, during the period the Company realized another quarter of strong performance in the phase change material (PCM) thermal regulation space. During the period, Alexium increased its shipments of its Alexicool™-based formulations to its finishing customers by 182%, a key addition in the Company's bottom-line gains this quarter.

Alexium is now selling Alexicool™ to 11 different finishers who sell fabric to dozens of bedding brands. During the period, fabric treated Alexicool™ was sampled or shown by our customers to 29 different bedding brands interested in adding a cooling feature, all of whom will be in attendance at the Las Vegas Summer Furniture Market in the first week of August. Alexium will also have a strong presence at that show.



Pillow and Apparel Markets - During the period, Alexium continued to advance its Alexicool™ products in both the pillow and apparel markets. Last month, Alexium Development Manager, Dick Estes, traveled to China to assist pillow shell suppliers to much of the pillow industry (including Pegasus Home Fashions) in running Alexium product on their production equipment. Alexium remains on track to realize significant revenue with healthy margins in the pillow space in 2017.

Also in the period, Alexium actively marketed its new Durable Moisture and Thermal Management product, Alexiflam™ DW, within the apparel sector and experienced strong interest in the product. Alexium is now working with potential customers to sample and test a range of products.

Cooling Market Dynamics - Market research shows that the PCM market (which includes Alexicool™) is growing at 20-25% per year, making it a very dynamic market with evolving price points and performance demands. Alexium has already begun to develop a broader suite of PCM based products to service the growing PCM industry on the basis of securing long term business with healthy margins based on cost-effective, high-performance products across different sectors and price points as a means of increasing our share of the growing PCM market.

Alexiflam™ - Advancing Our Technological Core

While much of the communication during the period centered around the Company's relatively new cooling product lines, a significant amount of technical and project-management efforts were focused on key large-scale flame retardant (FR) opportunities.

Alexiflam™ FR (Military Strategy)

Alexium made significant strides during the period in our long-standing efforts to penetrate the valuable military market. While Alexium achieved all of the technical goals around flame retardancy over a year ago through various efforts with the US Department of Defense (DoD), the goal shifted to produce lighter weight and more breathable base fabrics to which our FR can then be applied. In September 2016, Alexium partnered with a large supplier to the DoD of nylon-cotton fabrics with the goal of accelerating the process of engineering a lighter and more breathable base fabric that could be married with Alexium's cost effective and performance-enhancing FR technology to satisfy all of the DoD's requirements.





Alexiflam™ FR (Military Strategy), *Continued*

In the period, Alexium and its fabric partner produced a finished fabric that has passed all of the DoD lab-scale performance, comfort and weight requirements. Garments have been made and they are now in the PyroMan testing phase.

Our traction in this area is now generating new opportunities for our Alexiflam™ FR chemistry, some related to military uniforms and others for commercial markets such as workwear. The industry is recognizing that Alexiflam™ FR is an excellent tool for addressing a number of gaps in these markets. Alexium is currently working with a number of partners to address significant revenue outside of the Army Combat or Marine Combat Uniforms and those efforts are underway.

Alexiflam™ NF (Natural Fibers)

When Alexium made the first version of Alexiflam™ NF in 2016, we immediately received the interest of several global chemical suppliers for possible exclusive licensing. As part of that process, it became apparent that we could capture more of the future potential of Alexiflam™ NF by engineering the product to pass flammability standards after 100 industrial launderings, which utilize very high wash temperature and more aggressive wash chemistries. Whilst this delayed licensing discussions with each of the potential licensees, Alexium's latest version of Alexiflam™ NF has passed that standard and chemistry has been shipped to the potential licensees for evaluation.

In addition, that time also allowed Alexium to engage with a wide range of major consumers of FR for cotton so the Company would better understand the markets and how they are structured. For instance, the consumption of cotton FR chemistry in the US is very consolidated, making it quite achievable for Alexium to attack that market directly. On the other hand, the consumption in Europe is very fragmented, making an exclusive license for Europe more appealing.

Also, Alexiflam™ NF is not only suitable for cotton (which goes into workwear and fleece), but also wool and wood (lumber), all of which will have very unique market dynamics. Looking forward, as potential licensees evaluate Alexium's NF product, Alexium will continue to develop go-to-market strategies for each market space and geography.

A Look Ahead

Ongoing Management of Margins – The first half of CY2017 has shown a sharp increase in gross margin for Alexium due to a combination of success with Alexicool™ and focused management on economies of scale for higher margin business. A key area of focus over the second half of CY2017 will be to diversify our customer and product base so that the gross profits Alexium has realized largely within bedding expand across all product lines and accelerate our financial performance and profitability.



A Look Ahead, *Continued*

Looking Outside Textiles - Inherent to that focus will be expansion outside of textiles which is a natural evolution for Alexium and its technologies. Over the next 6 months, Alexium will be further pursuing a strategic initiative to analyze FR and PCM markets outside of textiles such as additional electronics sectors and building materials and see where our current technologies are differentiated, identify market gaps to which the Company should devote R&D resources and a plan of implementation.

We continue to work with a major customer in the consumer electronics sector. That customer is bringing more advanced resins into its product lines to meet end user demand as consumer electronics require more capability, which resulted in additional UL standard certification procedures. Each customer product will require UL certification for that specific product.

Restructuring of Working Capital Facilities - With the improvement in Alexium’s bottom line over the last six months, culminating in a cash-neutral June, Alexium now has considerably more debt facility options to fund future strategic activities and working capital at much more advantageous terms for the Company. Alexium is reviewing term sheets for refinancing our working capital facility and we will update shareholders when a new facility is finalized.

Working Capital - With cash of \$3.4m and receivables of \$1.5m, together with higher margins on business that generate cash and existing inventory, Alexium has sufficient working capital for our current needs. We would expect to increase debt facilities for any additional working capital that may be required to finance inventory for rising orders.

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About Alexium International Limited Group:

Alexium International Group Limited (ASX: AJX, AX:AJX, Nasdaq Designation: AXXIY) holds proprietary patent applications for novel technologies developed to provide flame retardancy for a wide range of materials. These environmentally friendly flame retardants have applications for a number of industries and can be customized. Further, Alexium has developed products for a range of other applications including phase-change materials, water repellents, antimicrobials, and combinations thereof. Alexium also holds patents for a process developed initially by the US Department of Defense, which allows for the surface modification and attachment of nano-particles or multiple chemical functional groups to surfaces or substrates to provide functions such as fire retardancy, waterproofing, oil proofing, and antimicrobial treatments. Applications under development include but are not limited to textiles, packaging, electronics, and building materials. Alexium’s chemical treatments are currently marketed under the Alexiflam™, Alexiflam FR™, Alexiflam SYN™, Alexiflam NF™, Alexicool™, Alexiflam PB™, Alexiflam AD™ and Alexicool™ brand names. For additional information about Alexium, please visit www.alexiuminternational.com.

Forward Looking Statement:

This release contains forward-looking statements that are based on current expectations, estimates and projections about Alexium’s business, management’s beliefs and assumptions made by management. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. Except where required by applicable law, the Company expressly disclaims a duty to provide updates to forward-looking statements after the date of this release to reflect subsequent events, changed circumstances, changes in expectations, or the estimates and assumptions associated with them.

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

ALEXIUM INTERNATIONAL GROUP LIMITED

ABN

91 064 820 408

Quarter ended ("current quarter")

30 June 2017

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	6,844	22,433
1.2 Payments for		
(a) research and development	(403)	(2,158)
(b) product manufacturing and operating costs	(7,357)	(23,984)
(c) advertising and marketing	(95)	(389)
(d) leased assets	(74)	(271)
(e) staff costs	(1,097)	(5,431)
(f) administration and corporate costs	(468)	(2,811)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	1	12
1.5 Interest and other costs of finance paid	(255)	(513)
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	212
1.8 Other (GST received)	13	114
1.9 Net cash from / (used in) operating activities	(2,891)	(12,786)

2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	(17)	(1,598)
(b) businesses (see item 10)	-	-
(c) investments	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(d) intellectual property	(46)	(109)
(e) other non-current assets	(6)	(22)
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	1
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	(69)	(1,728)

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	-	-
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	663
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	6,675
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	(126)
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	-	7,212

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	6,403	11,219
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,891)	(12,786)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	(69)	(1,728)
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	7,212

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (12 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	(33)	(507)
4.6	Cash and cash equivalents at end of quarter	3,410	3,410

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	2,253	11,215
5.2	Call deposits	1,157	1,142
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	3,410	6,403

6. Payments to directors of the entity and their associates

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

Current quarter \$A'000
394
-

N/A

7. Payments to related entities of the entity and their associates

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

Current quarter \$A'000
199
-

N/A

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	7,350	7,103
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

As of period end, the Company has \$A1,511,000 in outstanding receivables which are expected to be collected in the following period.

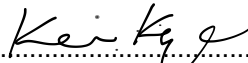
9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	529
9.2 Product manufacturing and operating costs	4,033
9.3 Advertising and marketing	89
9.4 Leased assets	75
9.5 Staff costs	1,215
9.6 Administration and corporate costs	450
9.7 Other (provide details if material)	-
9.8 Total estimated cash outflows	6,391

Note that Estimated Cash Outflows in Section 9 of the attached 4C are outflows only and do not include estimated cash inflows during the quarter due to sales. Estimated cash outflows should not be used to predict Cash and Cash Equivalents at end of quarter (Section 4.6) for the next quarter

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:  Date: 26 July 2017
(Director/Company secretary)

Print name: Kevin Kye

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.