



ALEXIUM
SPECIALTY CHEMICALS AND SOLUTIONS

ALEXIUM INTERNATIONAL GROUP LIMITED

ABN 91 064 820 408

FINANCIAL REPORT

FOR THE YEAR ENDED
JUNE 30TH 2017

INNOVATION. GROWTH. LEADERSHIP

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COMPANY DIRECTORY

DIRECTORS:	Mr Gavin Rezos Mr Craig Metz Ms Karen Thurman Brigadier General Stephen Cheney
COMPANY SECRETARY:	Mr Kevin Kye
REGISTERED AND PRINCIPAL OFFICE:	Level 11 125 St Georges Tce Perth WA 6000 Telephone: +61 8 9384 3160 Facsimile: +61 8 6314 1623
AUDITORS:	Grant Thornton Audit Pty Ltd Level 1, 10 Kings Park Rd West Perth WA 6005
SHARE REGISTRY:	Automic Registry Services Level 2 267 St Georges Terrace Perth WA 6000
BANKERS:	Macquarie Bank 235 St Georges Terrace Perth WA 6000
SOLICITORS:	Steinepreis Paganin Level 4, The Read Buildings 16 Milligan Street Perth WA 6000
ABN:	91 064 820 408
DOMICILE AND COUNTRY OF INCORPORATION:	Australia
LEGAL FORM OF ENTITY:	Listed Public Company
SECURITY EXCHANGE:	Australian Securities Exchange Limited ASX Code: AJX NASDAQ International Designation Ticker: AXXIY

Dear Shareholders,

I am happy to present your Company's 2017 annual report. This was a breakthrough year for Alexium as the Company grew its top line revenue significantly while simultaneously increasing bottom-line margins. This transition from pure top-line growth towards sustainable profitability was the result of a shift in business strategy toward higher margin business, economies of scale on raw materials and toll manufacturing, utilisation of the benefits of the new state of the art facility in Greer, and the introduction of a new product line, Alexicool™.

A key factor in 2017 was a shift from a business model largely based on providing bespoke FR solutions to end-users to a business model focused on developing platform products aimed at a broader point in the supply chain. This allowed the usage of fewer raw materials, supplied much earlier in the product life cycle at economies of scale. This change was coupled with a shift in organizational structure to best respond to platform opportunities, with the sales, product development and core research functions effectively working as one unit. This shift enables a rapid translation of the voice of the customer from sales into new platform products.

The Company realized its first major success from the new sustainable growth model with the launch of its Alexicool™ product line in early FY2017. This new product line grew from a clear market need identified by the Alexium sales team and in the period from December 2016 to June 2017 quickly became Alexium's most profitable sector. Since its introduction, the Alexicool™ product line has expanded from 1 product into 4 platform products addressing key needs in bedding, pillows, and apparel with upcoming products targeted for building & construction.

In 2017, Alexium added to its robust intellectual property portfolio with the development of the first revolutionary FR treatment for cellulosic materials in over 30 years, Alexiflam™ NF. Alexiflam™ NF is a polymeric non-halogenated chemistry which has the potential to disrupt the FR markets of workwear, fleece and timber. Since its introduction, the Company has modified the product to pass the strictest of global FR cotton standards, increased durability to over 100 industrial launderings, and worked with multinational global chemistry suppliers to negotiate exclusive and/or development licensing agreements.

This sustainable growth strategy has been very capably driven by our leadership team, headed by our CEO Dr. Dirk Van Hying. Alongside Dr. Van Hying, CFO Aaron Krech, VP of Research and Development Bob Brookins, and VP of Sales and Marketing Scott Hunter have led the effort to transition the company into more sustainable growth where we are meeting customer needs and seizing higher value market opportunities. Key support functions for the business are led by Jessica Hutchison, VP of Human Resources, Brian Enlow, VP of Finance and Mark Wise, VP of Investor Relations.

Post year end, our former CEO Dr Nick Clark, retired from the role of Executive Director-Strategy for health-related reasons. On behalf of the Group, I thank Nick for his commitment and passion for Alexium and building the foundation to support the sustainable growth being led by Dirk and the senior leadership team. During the year, Craig Smith-Gander retired as a Non-Executive Director to focus on his commercial crane business in Western Australia. We also welcomed former US Congresswoman Karen Thurman to the board and we are in the process of appointing another Australian based Non-Executive Director whose skills we expect to complement our current Boards skills, to best support management and represent the interest of shareholders.

DIRECTORS' REPORT (cont.)

The change in business model and reporting style led to a reduction in share price during the year. We believe this reduction is temporary, as our register continues to transform to a greater institutional shareholder base and given we achieved our first month of cash flow neutrality in June clearly demonstrating our bright future of high value sustainable growth. However, to reflect the full alignment of interest between the shareholders and management, our executive directors declined their individually earned short-term incentive (STI) award for 2017.

Yours Faithfully,



Gavin Rezos
Non-Executive Chairman

2020

DIRECTORS' REPORT (cont.)

HIGHLIGHTS FOR THE YEAR INCLUDE:

FIRST QUARTER

- ALEXIUM SECURES LONG TERM WORK WITH TENTING MANUFACTURER
- SECOND HALF YEAR SALES INCREASE WITH TWO NEW CLIENTS
- CONTINUED GROWTH AS PURCHASE ORDERS ROLL IN
- SALES AGREEMENT FINALIZED AND SUPPLY COMMENCES

SECOND QUARTER

- ALEXIUM ACHIEVES SIGNIFICANT RESULT WITH WORK ON EPA RULES
- US\$3M FIRST MULTIFUNCTION, SINGLE-FORMULATION AGREEMENTS
- ALEXIUM PRESENTS AT THE ASX SPOTLIGHT CONFERENCE
- ALEXIUM PROVIDES CHEMISTRY TO USMC AND EVALUATION COMMENCES

THIRD QUARTER

- USD\$10M AGREEMENT SALES TO MASS BRAND RETAILERS ACROSS US
- ALEXIUM ADMITTED TO NASDAQ INTERNATIONAL DESIGNATION
- CONGRESSWOMEN THURMAN 93-03 (D-FL) APPOINTED TO BOARD
- ALEXIUM PRESENTATION AT THE GABELLI CONFERENCE

FOURTH QUARTER

- ALEXIFLAM™ AND ALEXICOOL™ INTRODUCED TO AUTO RACING MARKET
- KEY ORGANIZATIONAL CHANGES SHOWCASING ALEXIUM'S GROWTH
- INCREASED SALES LEAD TO RECORD MONTHLY PRODUCT SHIPMENTS



DIRECTORS' REPORT (cont.)

DIRECTORS

The names and details of the Group's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire year unless otherwise stated.

MR GAVIN REZOS | B.Juris, LLB, BA, Non-executive Chairman

Mr Rezos has extensive Australian and international investment banking experience and is a former Investment Banking Director of HSBC Group with regional roles during his HSBC career based in London, Sydney and Dubai. Mr Rezos has held Chief Executive Officer positions and executive directorships of companies in the technology sector in Australia, the United Kingdom, the US and Singapore and was formerly a Non-Executive Director of Iluka Resources Limited, a then ASX top 50 company, and of Rowing Australia, the peak Olympic sports body for rowing in Australia from 2009 until 2014. He is currently a Non-Executive Director of Energy Group Limited. Mr. Rezos moved from an Executive Chair role to Non-Executive Chairman in July 2017 and was first appointed to the board in 2010.

MR CRAIG METZ | D.Jur., Non-executive Director

Mr Metz is a partner at Nelson, Mullins, Riley and Scarborough LLP with over 20 years' experience in legislative and regulatory affairs. He served as Chief of Staff to the late Congressman Floyd Spence (R-SC). He held staff positions in the United States Senate and House of Representatives. Mr Metz was appointed to senior positions in the Executive Branch of the Federal Government. Mr Metz is chair of the audit committee and was appointed to the board on 1 December 2014.

BRIGADIER GENERAL STEPHEN CHENEY | USMC (ret), Non-executive Director

General Cheney is the former Inspector General of the Marine Corps and Commanding General of Parris Island Marine Base. He is also the former Deputy Executive Secretary to US Defense Secretary Dick Cheney under President George H.W. Bush. He currently sits on Secretary of State John Kerry's Foreign Affairs Policy Board and is CEO of the Washington DC based policy group, American Security Project. General Cheney is chairman of the remuneration committee and was appointed to the board on 15 April 2015.

FMR CONGRESSWOMAN KAREN THURMAN | D.Jur., Non-executive Director

Ms. Thurman was elected to the US House of Representatives in 1992 and consecutively re-elected four additional terms. Karen is an expert on healthcare, veteran's affairs, and tax reform. Karen served on the House Ways and Means Committee, where she fought for affordable prescription drugs, increased access to health insurance, and tax relief. Congresswoman Thurman has also served on both the House Agriculture Committee and the Committee on Government Reform & Oversight. Karen continues to advocate on issues in D.C. and is well regarded on both sides of the House. Karen serves as a member of the remuneration and audit committees. Ms Thurman was appointed to the board on 2 March 2017.

DR NICHOLAS CLARK | BEc, LLB, MBA, PhD, CPA, F FIN, Executive Director and CEO- Resigned 1 August 2017

Mr Clark was appointed to the board on March 18, 2013. Mr Clark originally commenced with Alexium International as the Group's CFO and Company Secretary until March 2013. Mr Clark has extensive experience in executive management, mergers and acquisitions globally. He has held roles such as Deputy Head, Mergers and Acquisitions, Head of Foreign Investments, and Head of Commercial and Contract Services, in particular with CITIC, one of China's largest resource groups.

MR CRAIG SMITH-GANDER | BA (Military), M.Com, Non-executive Director- Resigned 13 February 2017

Mr Smith-Gander is a graduate of the Royal Military College Duntroon and served as an officer in the Australian Regular Army. He worked in the Offshore Group at Clough Engineering Group and was appointed as the Group's first Risk Manager. He has extensive investment banking and corporate finance experience and is a former Director, Investment Banking at CIBC World Markets. Mr Smith-Gander is now the owner and Managing Director of Kwik Transport and Crane Hire Pty Ltd.

DIRECTORS' REPORT (cont.)

Directorships of other listed companies during the last 3 years

Name	Company	Commenced	Ceased
Mr Gavin Rezos	Iluka Resources Ltd	20 June 2006	15 December 2016
	Department 13 International Ltd	18 December 2015	30 June 2017
	Resource and Energy Group Ltd	21 April 2016	
Mr Craig Metz	None	-	-
Brig. Gen. Stephen Cheney	None	-	-
Ms Karen Thurman	None	-	-
Mr Craig Smith-Gander	None	-	-
Mr Nicholas Clark	None	-	-

Interests in the shares and options of the Group

As at the date of this report, the interests of the Directors in the shares and options of Alexium International Group Limited were:

Name	Number of ordinary shares	Number of performance shares	Number of options over ordinary shares
Mr Gavin Rezos	26,100,100	-	-
Mr Craig Metz	-	-	750,000
Brig. Gen. Stephen Cheney	43,000	-	750,000
Ms Karen Thurman	-	-	-

COMPANY SECRETARY

Mr Kevin Kye was appointed company secretary on 10 November 2015.

PRINCIPAL ACTIVITY

The principal activities of the entities in the group during the year were conducting research and development on new technology, licensing its intellectual property, and selling its specialized chemistry to customers.

RESULTS AND REVIEW OF OPERATIONS

The Group's net loss attributable to members of the Group for the financial year ended 30 June 2017 was \$12,155,268.

As at 30 June 2017 the cash position was \$3,409,783 (2016: \$11,218,556) and the Group had 303,827,998 ordinary shares on issue (2016: 298,736,791).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by \$1,185,562 (from \$51,634,479 to \$52,820,041) as the result of options converted to shares of \$663,033 and \$522,529 of shares issued in lieu of salary and services.

DIVIDENDS

The Directors recommend that no amount be paid by way of dividend. No dividend has been paid or declared since the start of the financial year.

DIRECTORS' REPORT (cont.)

UNISSUED SHARES UNDER OPTION

Unissued shares

As at the date of this report there were 11,066,626 unissued ordinary shares under option (2016:16,449,024). Details of these options are as follows:

<i>Date Options Granted</i>	<i>Expiry Date</i>	<i>Exercise price of shares</i>	<i>Number under option</i>
13 May 2015	31 December 2017	\$0.70	500,000
13 May 2015	31 December 2017	\$0.80	1,000,000
6 May 2015	7 May 2018	\$0.75	6,916,626
1 October 2015	30 September 2020	\$0.75	1,500,000
9 November 2015	9 November 2017	\$1.207	125,000
9 November 2015	9 November 2017	\$1.314	125,000
4 November 2016	4 November 2019	\$0.75	300,000
4 November 2016	4 November 2019	\$1.25	300,000
4 November 2016	4 November 2019	\$1.75	300,000
			11,066,626

Refer to Note 16 for details of the movements of the options during the year and ASX announcement for options exercised subsequent to the year end and to the date of this report.

The group has Nil performance rights on issue (2016: 3,250,000).

AFTER BALANCE DATE EVENTS

Since 30 June 2017, 30,000 \$0.13 options, 30,000 \$0.16 options, 1,240,000 \$0.18 options, 1,125,000 \$0.20 options have been converted.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group's strategy and efforts to date have centred around development and delivery of high-performance, tailored flame retardant and thermal regulation systems for key markets and customers. The Group realized major progress in growing top-line revenue alongside gross profit improvements late in the period.

The Group continues to generate new products around specific market needs in key sectors, which in turn the company protects with intellectual property around those products. Currently the company has seven different products targeted at various markets: Alexiflam™ FR, for mattress ticking and military fabrics; Alexiflam™ NF, for natural fibers such as cotton and wood; Alexiflam™ PB, for outdoor fabrics; Alexicool™ AL and HT, for home furnishings, bedding and pillows; and Alexicool™ DR and DW for apparel, such as workwear, athletic wear and workwear. In the near term, the Group's focus will be both the successful adoption by customers of the newer platform products and market share growth of the more established products.

Alexium maintains its operating headquarters in Greer, South Carolina. The research, development, sales and administration are all conducted out of a new custom-designed facility completed during 2017. The Group continues to leverage its low-capital manufacturing model to create and mass-produce unique chemical solutions for a wide array of potential markets. The Group has established outsourced manufacturing, inventory and supply chain capabilities on three continents and working to extend those capabilities to a fourth. That network of toll manufacturers allows the Company to produce its unique performance chemical solutions for a small fraction of the total cost of goods sold.

DIRECTORS' REPORT (cont.)

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In the future, Alexium will continue to generate new technology and new products which the Group will product with intellectual property, via both patents and trade secrets. Alexium's research and development strategy in the short term is to identify key market areas where there are gaps in technology, pricing and capability that Alexium can leverage its technology and expertise. A second strategic focus will be to identify key area of focus outside of our core textile markets where Alexium's technology can address those same needs.

ENVIRONMENTAL ISSUES

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory in Australia. The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use.

US Laws concerning the environment that affect or could affect our operations include, among others, the Clean Water Act, the Resource Conservation and Recovery Act, the Occupational Safety and Health Act, the National Environmental Policy Act, the Toxic Substances Control Act, regulations promogulated under these Acts, and any other federal, state or local laws or regulations governing environmental matters. We believe that we are incompliance with these laws and that future compliance will not materially affect our earnings or competitive position.

For the period 1 July 2016 to 30 June 2017 the Directors have asserted that there are no current reporting requirements, but may be required to do so in the future.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT - AUDITED

This report outlines the remuneration arrangements in place for Directors and Executives who are Key Management Personnel of Alexium International Group Limited and its subsidiaries (the "Group").

Director and executive details

The Directors of the Group, during the year were:

- Mr Gavin Rezos – Non Executive Chairman
- Mr Craig Metz – Non Executive Director
- Brigadier General Stephen Cheney – Non Executive Director
- Ms Karen Thurman – Non Executive Director
- Mr Craig Smith Gander – Non Executive Director- resigned effective 13 February 2017
- Mr Nicholas Clark – Executive Director and CEO- resigned effective 1 August 2017

Other Non-Director Company Executives, during the year were:

- Dr Dirk Van Hyning – Chief Executive Officer
- Dr Bob Brookins – Vice President, R&D
- Mr Aaron Krech – Chief Financial Officer

Remuneration Policy

The Board recognizes that Alexium International Group Limited and its subsidiaries (the "Group") operates in a global environment. To prosper, the Group must be able to attract, motivate and retain internationally mobile Executives. The key principles that underpin the Group's remuneration policy are:

- That rewards reflect the competitive global market in which the Group operates.
- That demanding key performance indicators apply to delivering results across the Group and to a significant portion of the total reward.
- That rewards to executives be linked to the creation of value to shareholders.
- That executives be rewarded for both financial and non-financial performance.
- That remuneration arrangements ensure equity between executives and facilitate the deployment of human resources.

Alexium's reward structure combines base salary and short-term incentive (STI) and long-term incentive (LTI) plans. The cost and value of components of the remuneration package are considered as a whole and are designed to ensure an appropriate balance between fixed and variable performance-related components, linked to short-term and long-term objectives and to reflect market competitiveness. Details of the policy applied in each component are outlined below.

Alexium has received advice from independent remuneration consultants AON Hewitt, on the structure of remuneration and benchmarking against peers and industry standards. Another detailed review will be undertaken in the 2018 financial year to ensure continued adherence to best practices.

Base Salary

Base salaries are quantified by reference to the scope and nature of an individual's role, performance and experience. The remuneration committee actively seeks market data to benchmark salary levels. Consideration is given to competitive global remuneration levels.

Salary levels are reviewed on a minimum annual basis and increased according to employee performance and market levels.

DIRECTORS' REPORT (cont.)

Incentive Plans

An employee share option plan (ESOP) has been established where eligible persons are issued with options over the ordinary shares of Alexium. The object of the plan is to assist in the recruitment, reward, retention and motivation of employees of the Company.

Other incentive plans including partly paid shares, share purchase loans or other schemes may be utilised to provide longer-term incentives and rewards to Executives. Shareholder approval will be obtained in each case as required by law.

Executives are paid according to market and experience. Executive Officers are those directly accountable for the operational management and strategic direction of the Company.

The STI Plan approved by shareholders in 2016 required achievement on a range of targets relating to Financial Return (60%), Growth (30%) and Sustainability (10%). The Financial Return targets being measures to exceed up to 120% of budgeted returns were not met. The Growth targets in relation to new product revenues, revenue growth exceeding 20% year on year outside the US and Margin growth were partially met with new product revenues exceeding target, sales growth exceeding 800% and margin growth exceeding 1300%. Sustainability targets were met in full with no safety, environmental or regulatory incidences recorded against a zero tolerance level. However, Messrs Rezos and Clark with the agreement of the Board agreed to waive any STI award in full, given the negative total shareholder return (TSR) for the year. The shareholder approved STI Plan for executive directors will not apply in 2018FY as Mr Clark resigned and Mr Rezos moved to a Non-Executive role.

The LTI plan approved by shareholders in 2016 requires a Total Shareholder Return (TSR) to exceed a threshold against a peer group of ASX companies. The minimum starting 50% threshold of a TSR performance exceeding the median level of performance measured against a group of 25 peer companies as recommended by independent remuneration advisors, AON Hewitt, was not achieved and no award was made. The shareholder approved LTI Plan for executive directors will not apply in 2018FY as Mr Clark resigned and Mr Rezos moved to a Non-Executive role.

At the November 2015 AGM, shareholders approved the issue of 2,000,000 Performance Shares to Mr Clark as then Executive Director and CEO and 1,250,000 Performance Shares to Mr Rezos as then Executive Chairman. These performance shares had a price target condition of \$1.24 which was not met by the 30 June 2017 expiry and accordingly lapsed at that date.

Non-Executives

In view of the significant market capitalization growth of the company in the 2016 financial year, and recognizing the important contribution of the Non-Executive Directors in advancing the interests of the Company, shareholders approved an increase in the Non-Executive Director salary pool to an aggregate US\$375,000 to enable the company to increase individual Non-Executive Director fees to the level recommended by independent remuneration advisors, AON Hewitt, Non-Executive Directors are not entitled to participate in any STI, LTI, Options or any other executive incentive plans. Non-Executive Directors do not receive any other retirement benefits other than a superannuation guarantee contribution required by Australian government regulation, which is currently 9.5% of their fees.

Terms of Executive Service Agreements

The details of service agreements of the Key Management Personnel and Directors, as applicable, of Alexium International Group Limited and the Group are as follows:

DIRECTORS' REPORT (cont.)

Directors

Mr Gavin Rezos, Non-Executive Chairman

- Term: the initial term of the Service Agreement was 12 months from 29 March 2010.
- Salary: A salary of US\$150,000 per year (inclusive of director's fees). The Chairman fee was reduced from US\$180,000 at October 1. Mr Rezos ceased being an executive director and ceased working in an executive capacity on 30 June 2017 and is accordingly not eligible for any performance based bonus
- Termination: Mr Rezos may terminate the Service Agreement without cause upon giving 9 months written notice to the Company or 3 months' notice should the Group so elect. The Group may at its sole discretion terminate the employment without cause by giving 3 months written notice to Mr Rezos and making a payment of 9 months' salary after the expiry of the 3 months written notice period.

Mr Craig Metz, Non Executive Director

- Mr Metz has a letter of appointment.
- Place of Work: Washington DC, United States of America.
- Salary: A base salary of US\$45,000 per year and Committee fees of US\$5,000 as the Chair of the Audit Committee (reduced from 2017 fees of US\$61,000 inclusive of committee fees).
- Termination: Mr Metz may terminate the Service Agreement without cause.

Brigadier General Stephen Cheney, Non Executive Director

- General Cheney has a letter of appointment.
- Place of Work: Washington DC, United States of America.
- Salary: A base salary of US\$45,000 per year and Committee fees of US\$5,000 as Chair of Remuneration Committee (reduced from 2017 fees of US\$61,000 inclusive of committee fees).
- Termination: General Cheney may terminate the Service Agreement without cause.

Ms Karen Thurman, Non Executive Director – appointed 2 March 2017

- Ms. Thurman has a letter of appointment.
- Place of Work: Washington DC, United States of America.
- Salary: A base salary of US\$45,000 per year and Committee fees of US\$5,000 as a member of the Audit and the Remuneration Committees (reduced from 2017 fees of US\$61,000 inclusive of committee fees).
- Termination: Ms. Thurman may terminate the Service Agreement without cause.

DIRECTORS' REPORT (cont.)

Executives

Dr Dirk Van Hying, Chief Executive Officer

- Term: the initial term of the Service Agreement is 12 months commencing on 26 April 2013 and thereafter on 6 months' notice from either party.
- Place of Work: South Carolina, United States of America for the term of employment.
- Remuneration: A base salary of US\$280,000 per annum with an entitlement to performance based incentives representing up to 50% base salary against a combination of group milestones based on total shareholder return and individual milestones based on company growth targets applicable to the executive.
- Termination: Mr Van Hying may terminate the Service Agreement without cause upon giving 6 months written notice to the Company. The Company may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Van Hying or make a payment of 6 months salary in lieu of notice.

Aaron Krech, Chief Financial Officer

- Term: the initial term of the Service Agreement is 12 months commencing on 8 December 2014 and thereafter on 6 months' notice from either party.
- Place of Work: South Carolina, United States of America for the term of employment.
- Remuneration: A base salary of US\$180,000 per annum with an entitlement to performance based incentives representing up to 50% of base salary against a combination of group milestones based on total shareholder return and individual milestones based on company growth targets applicable to the executive.
- Termination: Mr Krech may terminate the Service Agreement without cause upon giving 6 months written notice to the Company. The Company may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Krech or make a payment of 6 months salary in lieu of notice.

Dr Bob Brookins, Vice President of Research and Development

- Term: the initial term of the Service Agreement is 12 months commencing on 1 August 2011 and thereafter on 6 months' notice from either party.
- Place of Work: South Carolina, United States of America for the term of employment.
- Remuneration: A base salary of US\$170,000 per annum with an entitlement to performance based incentives representing up to 50% of base salary against a combination of group milestones based on total shareholder return and individual milestones based on company growth targets applicable to the executive.
- Termination: Mr Brookins may terminate the Service Agreement without cause upon giving 6 months written notice to the Company. The Company may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Brookins or make a payment of 6 months salary in lieu of notice.

DIRECTORS' REPORT (cont.)

Remuneration of Key Management Personnel during the year

The following table discloses the remuneration of the Key Management Personnel being the Directors and Executives during the financial year:

2017	Short-term benefits				Post employment super-annuation	Share-based payments Shares	Share-based payments Options	Share-based payments Performance rights	Short Term Incentive Plan ⁽⁷⁾	Long Term Incentive Plan ⁽⁸⁾	Total
	Salary and fees	Bonus	Medical benefits	Other							
	\$	\$	\$	\$							
Directors											
Mr G Rezos ⁽¹⁾	397,832	-	14,332	-	-	174,749 ⁽⁴⁾	-	-	Waived	Nil	586,913
Mr C Metz	80,936	-	-	-	-	-	-	-	-	-	80,936
Brig. Gen. S Cheney	74,302	-	-	-	-	-	-	-	-	-	74,302
Ms K Thurman	27,028	-	-	-	-	-	-	-	-	-	27,028
Mr N Clark ⁽²⁾	594,273	-	19,433	191,741 ⁽⁶⁾	-	263,772 ⁽⁵⁾	-	-	Waived	Nil	1,069,219
Mr C Smith Gander ⁽³⁾	50,315 ⁽³⁾	-	-	-	4,780 ⁽³⁾	-	-	-	-	-	55,095
Total Directors	1,224,686	-	33,765	191,741	4,780	438,521	-	-	-	-	1,893,493
Executives											
Dr D V Hying	275,324	-	18,534	10,205 ⁽⁹⁾	-	-	-	-	-	-	304,063
Mr B Brookins	203,994	-	11,162	7,171 ⁽⁹⁾	-	-	-	-	-	-	222,327
Mr A Krech	199,005	-	6,202	10,931 ⁽⁹⁾	-	-	-	-	-	-	216,138
Total Executives	678,323	-	35,898	28,307	-	-	-	-	-	-	742,528
Total Directors and Executives	1,903,009	-	69,663	220,048	4,780	438,521	-	-	-	-	2,636,021

(1) Mr Rezos served as Executive Chairman in the 2017 financial year and transitioned to Non Executive Chairman on 1 July 2017

(2) Resigned 1 August 2017

(3) Resigned 13 February 2017; All benefits paid are through the date of resignation.

(4) On 21 November 2016, shareholders approved the issue of 285,713 shares to Mr Gavin Rezos in lieu of salary.

(5) On 21 November 2016, shareholders approved the issue of 431,264 shares to Mr Nicholas Clark in lieu of salary; At 30 June 2017, these shares have not yet been issued.

(6) Includes legal, motor vehicle allowance and relocation expenses reimbursement in accordance with the Executive Services contract executed in 2014.

(7) Board agreed to waive any STI award in full, given the negative TSR for the year.

(8) Minimum starting 50% threshold was not achieved and no award was made.

(9) Paid leave benefit earned in the current period

DIRECTORS' REPORT (cont.)

2016	Short-term benefits				Post employment super-annuation	Share-based payments Shares	Share-based payments Options	Share-based payments Performance rights	Total
	Salary and fees	Bonus	Medical benefits	Other					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<i>Directors</i>									
Mr G Rezos	248,634	219,400 ⁽⁶⁾	33,200	37,000 ⁽⁹⁾	-	139,640 ⁽⁵⁾	-	152,250 ⁽¹⁾	830,124
Mr C Metz	37,081	-	-	-	-	-	457,792 ⁽⁴⁾	-	494,873
Brig. Gen. S Cheney	37,081	-	-	-	-	-	457,792 ⁽⁴⁾	-	494,873
Mr N Clark	439,298	337,721 ⁽⁷⁾	15,454	204,887 ⁽⁸⁾	-	139,640 ⁽⁵⁾	-	243,600 ⁽²⁾	1,380,600
Mr C Smith-Gander	35,285	-	-	-	3,352	-	43,446 ⁽³⁾	-	82,083
Total Directors	797,379	557,121	48,654	241,887	3,352	279,280	959,030	395,850	3,282,553
<i>Executives</i>									
Dr D V Hying	212,712	-	21,198	-	-	-	-	-	233,910
Mr B Brookins	194,150	-	15,948	-	-	-	-	-	210,098
Mr A Krech	154,424	-	6,043	-	-	-	-	-	160,467
Total Executives	561,286	-	43,189	-	-	-	-	-	604,475
Total Directors and Executives	1,358,665	557,121	91,843	241,887	3,352	279,280	959,030	395,850	3,887,028

- (1) On 9 November 2015, shareholders approved the issue of 1.25 million Performance Rights, subject to vesting condition.
- (2) On 9 November 2015, shareholders approved the issue of 2 million Performance Rights, subject to vesting condition.
- (3) On 9 November 2015, shareholders approved the issue of 125,000 options exercisable at \$1.2072 and 125,000 options exercisable at \$1.314 expiring 9 November 2017.
- (4) On 18 August 2015, shareholders approved the issue of 750,000 options, respectively to Mr Craig Metz and Brigadier General Stephen Cheney, exercisable at \$0.75 expiring 30 September 2020.
- (5) On 9 November 2015, shareholders approved the issue of 156,144 shares, respectively to Mr Gavin Rezos and Mr Nicholas Clark.
- (6) As at 30 June 2016, \$178,067 (US\$132,500) remained unpaid and payable to Mr Gavin Rezos.
- (7) As at 30 June 2016, \$268,781 (US\$200,000) remained unpaid and payable to Mr Nicholas Clark.
- (8) Includes housing and motor vehicle allowance which some of allowance expect to cease during FY2017.
- (9) Includes legal and relocation expenses reimbursement in accordance with the Executive Services contract executed in 2014.

DIRECTORS' REPORT (cont.)

Value of shares, options and performance rights issued to Directors and Executives

The Directors and Executives of the Company were issued or are entitled to the following share-based remuneration during/for the year:

- (1) Options
Nil Options (2016: 1,750,000) with a value of \$Nil (2016: \$959,030).
- (2) Shares
716,977 shares (2016: 312,288) with a value of \$438,521 in lieu of salary (2016: \$279,280).
- (3) Performance Rights
Nil Performance Rights were issued (2016: 3,250,000) with a value of \$Nil (2016: \$395,850).

Options

The valuation of options granted and exercised over ordinary shares in the Company held by each Key Management Personnel is detailed below.

Name	2017			2016		
	Granted in year	Value of options exercised in year	Lapsed in year	Granted in year	Value of options exercised in year	Lapsed in year
	\$ (A)	\$ (B)	\$(C)	\$ (A)	\$ (B)	\$(C)
<i>Directors</i>						
Mr G Rezos	-	-	-	-	-	-
Mr Craig Metz	-	-	-	457,792 ⁽¹⁾	-	-
Brig. Gen. Stephen Cheney	-	-	-	457,792 ⁽¹⁾	-	-
Ms K Thurman	-	-	-	-	-	-
Mr N Clark	-	-	-	-	-	-
Mr C Smith-Gander	-	-	-	43,446 ⁽¹⁾	680,000	-
<i>Executives</i>						
Mr D Van Hyning	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	1,970,000	-
Mr A Krech	-	-	-	-	-	-
TOTAL	-	-	-	959,030	2,650,000	-

⁽¹⁾ The options were granted following shareholder's approval at the 2015 Annual General Meeting and Extraordinary General Meeting held on 18 August 2015. Those options granted to Non Executive Directors were issued pre commercialization and revenue generation stage of our development when cash was necessarily conserved such that low director fees were at that time complimented by "out of the money" options in order to attract and retain experienced high calibre directors.

(A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.

(B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

(C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

DIRECTORS' REPORT (cont.)

Details on options granted and vested as remuneration to each Key Management Personnel of the Group during the reporting periods are as follows

2017

Name	Number of options granted during 2017	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2017
<i>Directors</i>							
Mr G Rezos	-	-	-	-	-	-	-
Mr Craig Metz	-	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	-	-	-
Ms K Thurman	-	-	-	-	-	-	-
Mr Nicholas Clark	-	-	-	-	-	-	-
Mr C Smith-Gander	-	-	-	-	-	-	-
<i>Executives</i>							
Mr D Van Hying	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

2016

Name	Number of options granted during 2016	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2016
<i>Directors</i>							
Mr G Rezos	-	-	-	-	-	-	-
Mr Craig Metz	750,000	01/10/15	01/10/15	\$0.6104	\$0.75	30/09/20	750,000
Brig. Gen. Stephen Cheney	750,000	01/10/15	01/10/15	\$0.6104	\$0.75	30/09/20	750,000
Mr Nicholas Clark	-	-	-	-	-	-	-
Mr C Smith-Gander	125,000	09/11/15	09/11/15	\$0.1845	\$1.207	09/11/17	125,000
	125,000	09/11/15	09/11/15	\$0.1631	\$1.314	09/11/17	125,000
<i>Executives</i>							
Mr D Van Hying	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-	-
Total	1,750,000	-	-	-	-	-	1,750,000

The options issued to Key Management Personnel vested immediately with no additional service or performance conditions but subject to holding locks. The primary purpose of the grant of the option is to provide a performance linked incentive component in the remuneration package to motivate and rewards the performance of role as the directors. The grant of the options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to directors. Shareholder approved options were issued pre commercialization and revenue generation stage of our development when cash was necessarily conserved such that low director fees were at that time complimented by "out of the money" options in order to attract and retain experienced high calibre directors.

DIRECTORS' REPORT (cont.)

The movement in number of options held by the Key Management Personnel, including their personally related parties, are set out below:

2017

Name	Balance at start of year	Granted during year as remuneration	Exercised during year	Other changes during year	Balance at end of year	Options Vested and exercisable at end of year
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	-	-	-	-	-	-
Mr C Metz	750,000	-	-	-	750,000	750,000
Brig. Gen. Stephen Cheney	750,000	-	-	-	750,000	750,000
Ms. K Thurman	-	-	-	-	-	-
Mr N Clark	-	-	-	-	-	-
Mr C Smith-Gander ⁽¹⁾	1,500,000	-	(500,000)	(750,000)	250,000	250,000
Total Directors	3,000,000	-	(500,000)	(750,000)	1,750,000	1,750,000
Executives						
Dr D Van Hying	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-
Total Executives	-	-	-	-	-	-
Total Directors and Executives	3,000,000	-	(500,000)	(750,000)	1,750,000	1,750,000

(1) Amounts during the period between 1 July 2016 to date of resignation 13 February 2017.

2016

Name	Balance at start of year	Granted during year as remuneration	Exercised during year	Other changes during year	Balance at end of year	Options Vested and exercisable at end of year
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	4,000,000	-	-	(4,000,000)	-	-
Mr C Metz	-	750,000	-	-	750,000	750,000
Brig. Gen. Stephen Cheney	-	750,000	-	-	750,000	750,000
Mr N Clark	-	-	-	-	-	-
Mr C Smith-Gander	2,250,000	250,000	(1,000,000)	-	1,500,000	1,500,000
Total Directors	6,250,000	1,750,000	(1,000,000)	(4,000,000)	3,000,000	3,000,000
Executives						
Dr D Van Hying	-	-	-	-	-	-
Mr B Brookins	3,000,000	-	(3,000,000)	-	-	-
Mr A Krech	-	-	-	-	-	-
Total Executives	3,000,000	-	(3,000,000)	-	-	-
Total Directors and Executives	9,250,000	1,750,000	(4,000,000)	(4,000,000)	3,000,000	3,000,000

DIRECTORS' REPORT (cont.)

Shares

The value of shares issued or agreed to be issued during the year was \$438,521 (2016: \$279,280) which was calculated based on issue price of AUD\$0.612 and was approved at the 2016 Annual General Meeting on 21 November 2016. The issue price represents volume weighted average closing price of shares on ASX in the five trading days to 5 October 2016, prior to 2016 Notice of Annual General Meeting.

The movement in number of shares held by the Key Management Personnel, including their personally related parties, are set out below:

2017

Name	Balance at start of year Ordinary Shares	Granted During the Year as Remuneration in lieu of salary	Received during year on conversion of performance rights	Received during year on exercise of options	Other changes during year Ordinary Shares	Balance at end of year Ordinary Shares ⁽²⁾
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	25,100,000	285,713	-	-	714,287 ⁽³⁾	26,100,000
Mr C Metz	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	43,000	-	-	-	-	43,000
Ms. K Thurman	-	-	-	-	-	-
Mr N Clark	8,986,144	-	-	-	73,926 ⁽³⁾	9,060,070
Mr C Smith-Gander ⁽¹⁾	1,460,166	-	-	500,000 ⁽¹⁾	(482,000) ⁽¹⁾	1,478,166
Total Directors	35,589,310	285,713	-	500,000	306,213	36,681,236
Executives						
Dr D Van Hying	1,000,000	-	-	-	(210,000)	790,000
Mr B Brookins	2,933,500	-	-	-	(159,000)	2,774,500
Mr A Krech	80,000	-	-	-	-	80,000
Total Executives	4,013,500	-	-	-	(369,000)	3,644,500
Total Directors and Executives	39,602,810	285,713	-	500,000	(62,787)	40,325,736

(1) Amounts during the period between 1 July 2016 to date of resignation 13 February 2017.

(2) C. Smith-Gander's balance are as at the date of resignation on 13 February 2017.

(3) On-market purchase of shares reflected in 3Y disclosures.

DIRECTORS' REPORT (cont.)

2016

Name	Balance at start of year Ordinary Shares	Granted During the Year as Remuneration in lieu of salary	Received during year on conversion of performance rights	Received during year on exercise of options	Other changes during year Ordinary Shares	Balance at end of year Ordinary Shares
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	22,175,000	156,144	2,500,000	-	268,856	25,100,000
Mr C Metz	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	43,000	43,000
Mr N Clark	5,820,000	156,144	3,000,000	-	10,000	8,986,144
Mr C Smith-Gander	615,166	-	-	1,000,000	(155,000)	1,460,166
Total Directors	28,610,166	312,288	5,500,000	1,000,000	166,856	35,589,310
Executives						
Dr Dirk Van Hying	400,000	-	600,000	-	-	1,000,000
Dr B Brookins	600,000	-	500,000	3,000,000	(1,166,500)	2,933,500
Mr A Krech	-	-	80,000	-	-	80,000
Total Executives	1,000,000	-	1,180,000	3,000,000	(1,166,500)	4,013,500
Total Directors and Executives	29,610,166	312,288	6,680,000	4,000,000	(999,644)	39,602,810

DIRECTORS' REPORT (cont.)

Performance rights

The valuation of performance rights granted and vested as remuneration of the Key Management Personnel of the Group during the reporting periods is detailed below:

Name	2017			2016		
	Granted during the year	Value of performance rights exercised in year	Lapsed in year	Granted during the year	Value of performance rights exercised in year	Lapsed in year
	\$ (A)	\$ (B)	\$(C)	\$ (D)	\$ (E)	\$(F)
Mr G Rezos	-	-	(152,250)	152,250	1,775,000	-
Mr Craig Metz	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	-	-
Ms. K Thurman	-	-	-	-	-	-
Mr N Clark	-	-	(243,600)	243,600	2,130,000	-
Mr C Smith-Gander	-	-	-	-	-	-
Executives						
Mr D Van Hying	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-
TOTAL	-	-	(395,850)	395,850	3,905,000	-

(A) No performance rights were awarded during the period.

(B) No performance rights were exercised during the period.

(C) 3,250,000 performance rights lapsed during the 2017 financial year. The value of the performance rights that lapsed during the year represents the benefit forgone and is calculated based on the closing share price on 9 November 2015 \$0.87 with a probability discount of 80% and an unlisted status discount of 30% being applied.

(D) The value of performance rights granted in the year is based on the closing share price on 9 November 2015 \$0.87 with a probability discount of 80% and an unlisted status discount of 30% being applied.

(E) The value of performance rights exercised during the year is calculated as the market price of shares of the Group as at closing of trading on the date the performance rights were vested.

(F) No performance rights lapsed during the period.

DIRECTORS' REPORT (cont.)

Details on performance rights over ordinary shares in the Company that were granted as compensation to each Key Management Personnel during the reporting period and details on performance rights that vested during the reporting period are as follows:

2017

Name	Number of performance rights granted during 2017	Grant date	Vesting date	Fair value per performance right at grant date (\$)	Price payable on vesting per performance right (\$)	Expiry date	Number of performance rights vested during 2017
Directors							
Mr G Rezos	-	-	-	-	-	-	-
Mr C Metz	-	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	-	-	-
Ms K Thurman	-	-	-	-	-	-	-
Mr N Clark	-	-	-	-	-	-	-
Mr C Smith-Gander	-	-	-	-	-	-	-
Executives							
Mr D Van Hying	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-

2016

Name	Number of performance rights granted during 2016	Grant date	Vesting date ⁽¹⁾	Fair value per performance right at grant date (\$)	Price payable on vesting per performance right (\$)	Expiry date ⁽²⁾	Number of performance rights vested during 2016
Directors							
Mr G Rezos	1,250,000	09/11/15	30/06/17	\$0.1218	Nil	30/6/17	Nil
Mr C Metz	-	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	-	-	-
Mr N Clark	2,000,000	09/11/15	30/06/17	\$0.1218	Nil	30/6/17	Nil
Mr C Smith-Gander	-	-	-	-	-	-	-
Executives							
Mr D Van Hying	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-	-
Total	3,250,000	-	-	-	-	-	-

(1) Vesting date assumed by Directors.

(2) Expiry date if vesting conditions not met.

DIRECTORS' REPORT (cont.)

The number of performance rights in the Company held during the financial year by each Key Management Personnel, including their personally related parties, is set out below. Nil performance rights were granted during the reporting year as compensation (2016: 3,250,000).

2017

Name	Balance at start of year Performance Rights	Granted during year as remuneration	Vested and Converted to Shares during year	Expired during year Performance Rights	Balance at end of year Performance Rights
	Number	Number	Number	Number	Number
Directors					
Mr G Rezos	1,250,000	-	-	(1,250,000)	-
Mr C Metz	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-
Ms K Thurman	-	-	-	-	-
Mr N Clark	2,000,000	-	-	(2,000,000)	-
Mr C Smith-Gander	-	-	-	-	-
Total Directors	3,250,000	-	-	(3,250,000)	-
Executives					
Dr D V Hynning	-	-	-	-	-
Mr B Brookins	-	-	-	-	-
Mr A Krech	-	-	-	-	-
Total Executives	-	-	-	-	-
Total Directors and Executives	3,250,000	-	-	(3,250,000)	-

2016

Name	Balance at start of year Performance Rights	Granted during year as remuneration	Vested and Converted to Shares during year	Other changes during year Performance Rights	Balance at end of year Performance Rights
	Number	Number	Number	Number	Number
Directors					
Mr G Rezos	2,500,000	1,250,000	(2,500,000)	-	1,250,000
Mr C Metz	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-
Mr N Clark	3,000,000	2,000,000	(3,000,000)	-	2,000,000
Mr C Smith-Gander	-	-	-	-	-
Total Directors	5,500,000	3,250,000	(5,500,000)	-	3,250,000
Executives					
Dr D V Hynning	600,000	-	(600,000)	-	-
Mr B Brookins	500,000	-	(500,000)	-	-
Mr A Krech	80,000	-	(80,000)	-	-
Total Executives	1,180,000	-	(1,180,000)	-	-
Total Directors and Executives	6,680,000	3,250,000	(6,680,000)	-	3,250,000

END OF REMUNERATION REPORT

DIRECTORS' REPORT (cont.)

DIRECTORS' MEETINGS

The number of formal Directors' meetings held and number of such formal meetings attended by each of the Directors of the Company during the financial year were as follows:

The following tables set information in relation to Board meetings held during the financial year.

Board Member	Board Meetings held while Director	Attended	Total
Gavin Rezos	8	8	8
Craig Metz	8	8	8
Brigadier General Stephen Cheney	8	8	8
Karen Thurman	4	4	4
Nicholas Clark	8	8	8
Craig Smith-Gander	4	4	4

Dates of Formal Board Meetings and Circulating Resolutions.

Board Meetings
3 August 2016
28 September 2016
12 December 2016
17 February 2017
24 March 2017
26 April 2017
2 June 2017
26 June 2017

Remuneration Committee Member	Eligible to Attend	Attended	Total
Brigadier General Stephen Cheney- Chairman	5	5	5
Craig Metz- Member	5	5	5
Karen Thurman- Member	2	2	2
Craig Smith-Gander	1	1	1

Remuneration Committee Meetings
20 December 2016 (circular resolution)
14 February 2017
14 March 2017 (circular resolution)
26 April 2017
26 June 2016

Audit Committee Member	Eligible to Attend	Attended	Total
Craig Metz- Chairman	5	5	5
Brig Gen Stephen Cheney- Member	5	5	5
Karen Thurman- Member	2	2	2

Audit Committee Meetings
17 February 2017
26 April 2017
26 June 2017

DIRECTORS' REPORT (cont.)

The board undertook a full self-assessment Board review during the year to review performance and areas for improvement. In addition, the board a review of current board skills. The full board constitutes the nomination committee where matters such as board skills matrix, director appointment, and board diversity are reviewed.

INSURANCE OF OFFICERS

The Company paid a premium during the year in respect of a Director and officer liability insurance policy, insuring the Directors of the Company, the Company Secretary, and all Executive Officers of the Company against a liability incurred as such a Director, Secretary or Executive Officer to the extent permitted by the Corporations Act 2001. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and officers' liability and legal expenses' insurance contracts, as such disclosure is prohibited under the terms of the contract.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the economic entity, or to intervene in any proceedings to which the entity is a party, for the purpose of taking responsibility on behalf of the entity for all or part of those proceedings.

No proceedings have been brought or intervened in or on behalf of the entity with leave of the Court under section 237 of the Corporations Act 2001.

ROUNDING OFF AMOUNTS

Amounts in the financial statements and Directors' report are presented in Australian dollars and all values are rounded to the nearest dollar, unless otherwise stated.

INDEMNITY OF AUDITORS

Alexium International Group Limited has agreed to indemnify their auditors, Grant Thornton Audit Pty Ltd, to the extent permitted by law, against any claim by a third party arising from Alexium International Group Limited's breach of their agreement. The indemnity stipulates that Alexium International Group Limited will meet the full amount of any such liabilities including a reasonable amount of legal costs.

NON-AUDIT SERVICES

During the year no non-audit services were provided by the Company's auditor, Grant Thornton Audit Pty Ltd.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 27 of the financial report.

Dated this 29th day of September 2017.

Signed in accordance with a resolution of the directors.



Gavin Rezos
Executive Chairman

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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 audit of Alexium International Group 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Hillgrove
Partner - Audit & Assurance

Perth, 29 September 2017

Grant Thornton Audit Pty Ltd ACN 130 913 594
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CONSOLIDATED STATEMENT OF PROFIT OR LOSS

AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

		Consolidated	
		2017	2016
	Note	\$	\$
Revenue	3	23,812,561	3,001,203
Cost of sales		(23,516,103)	(3,363,839)
Gross Profit		<u>296,458</u>	<u>(362,636)</u>
Other Income	3	209,837	412,701
Administrative expenses	4	(1,512,740)	(1,361,276)
Employee benefits expense		(4,575,903)	(3,672,088)
Depreciation and amortisation expense	5	(359,241)	(204,473)
Research and development costs		(1,878,367)	(1,984,423)
Professional fees		(1,525,349)	(2,306,411)
Other expenses		(1,507,547)	(1,834,970)
Share based payments		(528,974)	(4,175,190)
		(11,381,826)	(15,488,766)
Finance costs			
Loss from embedded derivative		(189,276)	-
Interest and amortisation of cost of raising convertible notes		(596,184)	(133)
Interest received	3	12,018	44,028
Loss before tax		<u>(12,155,268)</u>	<u>(15,444,871)</u>
Tax expense	7	-	-
		(12,155,268)	(15,444,871)
Loss for the year after tax		<u>(12,155,268)</u>	<u>(15,444,871)</u>
Exchange differences on translation of foreign operations which may subsequently be reclassified to profit or loss		(198,552)	459,291
Total comprehensive loss for the year		<u>(12,353,820)</u>	<u>(14,985,580)</u>
Loss for the year attributable to members of the group		(12,155,268)	(15,444,871)
Total comprehensive loss for the year attributable to members of the group		<u>(12,353,820)</u>	<u>(14,985,580)</u>
Basic loss per share (cents)	8	(4.03)	(6.97)
Diluted loss per share (cents)	8	(4.03)	(6.97)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2017

	Note	Consolidated	
		2017	2016
		\$	\$
Current Assets			
Cash and cash equivalents	20(a)	3,409,783	11,218,556
Trade and other receivables	9	1,427,908	191,762
Inventories	10	2,091,028	1,656,669
Other current assets		101,129	90,869
Total Current Assets		<u>7,029,848</u>	<u>13,157,856</u>
Non-Current Assets			
Other financial assets		35,530	37,094
Property, plant and equipment	11	2,441,920	816,738
Intangible assets	12	143,299	148,454
Total Non-Current Assets		<u>2,620,749</u>	<u>1,002,286</u>
Total Assets		<u>9,650,597</u>	<u>14,160,142</u>
Current Liabilities			
Trade and other payables	13	1,830,037	2,817,172
Deferred income	14	32,458	18,365
Borrowings	15	5,854,376	38,526
Other liabilities		263,772	-
Total Current Liabilities		<u>7,980,643</u>	<u>2,874,063</u>
Non-Current Liabilities			
Borrowings	15	394,077	18,549
Derivative liability	15	1,056,403	-
Total Non-Current Liabilities		<u>1,450,480</u>	<u>18,549</u>
Total Liabilities		<u>9,431,123</u>	<u>2,892,612</u>
Net Assets / Liabilities		<u>219,474</u>	<u>11,267,530</u>
Equity			
Contributed equity	16	52,820,041	51,634,479
Reserves	18	8,973,213	9,051,563
Accumulated losses	19	(61,573,780)	(49,418,512)
Total Equity		<u>219,474</u>	<u>11,267,530</u>

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2017

	\$	\$	\$	Reserves \$	\$	\$
Balance at 1 July 2016	51,634,479	7,083,657	759,360	1,208,546	(49,418,512)	11,267,530
Loss for the year	-	-	-	-	(12,155,268)	(12,155,268)
Foreign currency translation	-	-	-	(198,552)	-	(198,522)
Total comprehensive loss for the year	-	-	-	(198,552)	(12,155,268)	(12,353,820)
Transactions with owners in their capacity as owners:						
Options exercised	663,033	120,202	-	-	-	783,235
Shares issued in lieu of salary	522,529	-	-	-	-	522,529
Balance at 30 June 2017	52,820,041	7,203,859	759,360	1,009,994	(61,573,780)	219,474

	Contributed equity \$	Options Reserve \$	Performance Rights Reserve \$	Foreign Currency Reserves \$	Accumulated losses \$	Total \$
Balance at 1 July 2015	41,363,396	3,304,317	363,510	749,255	(33,973,641)	11,806,837
Loss for the year	-	-	-	-	(15,444,871)	(15,444,871)
Foreign currency translation	-	-	-	459,291	-	459,291
Total comprehensive loss for the year	-	-	-	459,291	(15,444,871)	(14,985,580)
Transactions with owners in their capacity as owners:						
Issued capital	6,000,000	-	-	-	-	6,000,000
Capital raising costs	(369,000)	-	-	-	-	(369,000)
Options exercised	3,906,113	-	-	-	-	3,906,113
Performance Rights Expense	-	-	395,850	-	-	395,850
Share-based payment	454,690	3,779,340	-	-	-	4,234,030
Shares issued in lieu of salary	279,280	-	-	-	-	279,280
Balance at 30 June 2016	51,634,479	7,083,657	759,360	1,208,546	(49,418,512)	11,267,530

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated	
		2017 \$	2016 \$
Cash flow from operating activities			
Receipts from customers and other income		22,433,226	3,318,758
Payments to suppliers and employees		(34,774,370)	(13,515,181)
Interest received	3	12,018	44,018
Interest and other costs of finance paid		(512,582)	-
Goods & services tax received from ATO		114,186	76,044
Net cash flows (used in) operating activities	20(b)	<u>(12,727,522)</u>	<u>(10,076,361)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(1,597,678)	(181,484)
Purchase of other non-current assets		(21,529)	-
Proceeds from disposal of property, plant and equipment		547	-
Investments in and maintenance of intangible assets		-	(28,276)
Net cash flows (used in) investing activities		<u>(1,618,660)</u>	<u>(209,760)</u>
Cash flows provided by financing activities			
Proceeds from borrowings		6,674,676	-
Proceeds from exercise of options		663,033	3,906,113
Transaction costs related to loans and borrowings		(126,085)	-
Payment of financing lease principal		(167,862)	-
Proceeds from issue of ordinary shares		-	6,000,000
Payment of share issue costs		-	(396,000)
Net cash flows provided by financing activities		<u>7,043,762</u>	<u>9,510,113</u>
Net increase / (decrease) in cash and cash equivalents		<u>(7,302,420)</u>	<u>(776,008)</u>
Cash and cash equivalents at beginning of year		11,218,556	11,621,603
Effect of exchange rate changes on cash and cash equivalents		(506,353)	372,961
Cash and cash equivalents at end of year	20(a)	<u>3,409,783</u>	<u>11,218,556</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

1. CORPORATE INFORMATION

The consolidated financial statements of Alexium International Group Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2017 were authorised for issue in accordance with a resolution of the directors on 29 September 2017. Alexium International Group Limited (the Company or the Parent) is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange and NASDAQ International. These financial statements include the consolidated financial statements and notes of Alexium International Group Limited and controlled entities ('Group') and are presented in Australian Dollars.

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

These financial statements are general purpose financial statements that have been prepared in accordance with Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Group is a for-profit entity for the purpose of preparing the financial statements.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of the financial statements are presented below. They have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The presentation and functional currency is Australian Dollars as the Group is listed on the Australian Stock Exchange Limited and the majority of shareholders are Australian residents.

Separate financial statements for the Company as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, required financial information for the Company as an individual entity is included in Note 25.

(b) New and amended standards adopted by the Group in this financial report

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australia Accounting Standards Board (AASB) that are relevant to its operations and effective for the current reporting period. These include:

- Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments (Part C: Financial Instruments)
- AASB 2014-1 Amendments to Australian Accounting Standards (Part E: Financial Instruments)
- AASB 2014-8 Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010)

The adoption of all of the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has had no effect on the amounts reporting for the current or prior periods.

(c) Impact of standards issued but not yet applied by the Group

New and revised accounting standards and amendments that are currently issued for future reporting periods that are relevant to the Group include:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The effective date is for annual reporting periods beginning on or after 1 January 2018. The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 15 Revenue from Contracts with Customers

AASB 15 replaces AASB 118: Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations.

In summary, AASB 15:

- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time at a point in time;
- provides a new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return and warranties); and
- expands and improves disclosures about revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2018.

AASB 16 Leases

The new AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

This amendment impacts on the use of AASB 11 when acquiring an interest in a joint operation.

The effective date is for annual reporting periods beginning on or after 1 January 2016. When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment. The effective date is for annual reporting periods beginning on or after 1 January 2016. These amendments were first adopted for the current year. There will be no material impact on the transactions and balances recognised in the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

The effective date is for annual reporting periods beginning on or after 1 January 2016. These amendments were first adopted for the current year. There will be no material impact on the transactions and balances recognised in the financial statements.

AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures (2011). The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations. Full gain or loss is recognised when the assets or subsidiary constitute a business, whereas gain or loss attributable to other investors' interests is recognised when the assets or subsidiary do not constitute a business.

The effective date is for annual reporting periods beginning on or after 1 January 2016. These amendments were first adopted for the current year. There will be no material impact on the transactions and balances recognised in the financial statements.

AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-1 amends AASB 112 Income Taxes to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

The effective date is for annual reporting periods beginning on or after 1 January 2017. When these amendments are first adopted for the year ending 30 June 2018, there will be no material impact on the financial statements.

(d) Group Accounting Policies

Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs). For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

Valuation techniques

In the absence of an active market for an identical asset or liability, the Group selects and uses one or more valuation techniques to measure the fair value of the asset or liability. The Group selects a valuation technique that is appropriate in the circumstances and for which sufficient data is available to measure fair value. The availability of sufficient and relevant data primarily depends on the specific characteristics of the asset or liability being measured. The valuation techniques selected by the Group are consistent with one or more of the following valuation approaches:

- Market approach: valuation techniques that use prices and other relevant information generated by market transactions for identical or similar assets or liabilities.
- Income approach: valuation techniques that convert estimated future cash flows or income and expenses into a single discounted present value.
- Cost approach: valuation techniques that reflect the current replacement cost of an asset at its current service capacity.

Each valuation technique requires inputs that reflect the assumptions that buyers and sellers would use when pricing the asset or liability, including assumptions about risks. When selecting a valuation technique, the Group gives priority to those techniques that maximise the use of observable inputs and minimise the use of unobservable inputs. Inputs that are developed using market data (such as publicly available information on actual transactions) and reflect the assumptions that buyers and sellers would generally use when pricing the asset or liability are considered observable, whereas inputs for which market data is not available and therefore are developed using the best information available about such assumptions are considered unobservable.

Fair value hierarchy

AASB 13 requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1

Measurements based on quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2

Measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

- if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa; or
- if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

(e) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Alexium International Group Limited and all of the subsidiaries. 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. A list of the subsidiaries is provided in Note 22.

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.

(f) Foreign currency translation

The functional and presentation currency of Alexium International Group Limited is Australian dollars (\$AUD). The functional currencies of its overseas subsidiaries are the Pound Sterling and the United States Dollar.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the statement of comprehensive income. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the statement of comprehensive income.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Alexium International Group Limited at the rate of exchange ruling at the balance sheet date and the statements of comprehensive income are translated at the weighted average exchange rates for the year.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(g) Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (i)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leased assets

The Group uses finance leases for several pieces of analytical equipment used in our research and product development. Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term. See below accounting policy for the depreciation methods and useful lives for assets held under finance leases.

The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

Subsequent costs

The consolidated entity recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as incurred.

Depreciation

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current and comparative years are as follows:

Computer equipment	3 years
Machinery and equipment	3 to 15 years
Furniture, fixtures and office equipment	3 to 10 years
Leased plant and equipment	Shorter of the lease term or the useful life

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(h) Intangible assets

Acquired intangible assets

Intangible assets acquired separately are capitalized at cost. Following initial recognition, the cost model is applied to the class of intangible assets whereby capitalized costs are amortized on a straight-line basis over their estimated useful lives, as these assets are considered finite.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy (i)).

Expenditure on internally generated goodwill and brands is recognised in the statement of comprehensive income as an expense as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

Amortisation

A summary of the policies applied to the consolidated entity's intangible assets is as follows:

Goodwill and intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date.

Capitalized development costs and patents and trademarks with a finite life are amortized as follows:

- Patents and Trademarks: Lesser of 17 years or average remaining life of patents and trademarks
- Capitalised development costs: Over future periods on a basis related to expected future benefits
- Software: Lesser of 5 years or average remaining life of software benefit

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted as appropriate.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit or loss when the asset is derecognised.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets are tested for impairment where an indicator of impairment exists (see accounting policy (i)). Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

(i) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the assets is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less cost to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Trade and other receivables

Trade receivables, which generally have 30-120 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(k) Determination and presentation of operating segments

For management purposes, the Group is organised into one main operating segment which involves the development and licensing of its proprietary flame retardant (FR) chemicals and reactive surface treatment (RST) technologies, and selling its specialized chemistry to customers. All of the Group's activities are interrelated and discrete financial information is reported to the Chief Executive Officer (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

The Group has applied AASB 8 Operating Segments from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. An operating segment's operating results are reviewed regularly by the Board to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Board considers the business from both a product and a geographical perspective and takes the view that the Group operates under one operating segment.

(l) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(m) Financial instruments

Recognition, initial measurement and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted for transaction costs, except for those carried at fair value through profit or loss which are measured initially at fair value.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expired.

(n) Embedded Derivative

The Group has issued liability classified embedded derivatives in connection with its convertible debt. An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a standalone derivative.

The embedded derivative is separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The embedded derivative is measured at fair value with changes in value being recorded in Consolidated Statement of Profit or Loss and Other Comprehensive Income.

(o) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

(q) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(r) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

During the reporting period the Group had instances in which it rendered research and development services to third-parties. Revenue arising from the rendering of services is recognised when the following criteria are met:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits will flow to the seller;
- The stage of completion at the balance sheet date can be measured reliably; and
- The costs incurred, or to be incurred, in respect of the transaction can be measured reliably.

For practical purposes, when services are performed by an indeterminate number of acts over a specified period of time, revenue is recognised on a straight-line basis over the specified period unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

Grant revenue

Government grants are recognisable in profit or loss, once there is reasonable assurance that the grant will be received and the Group will comply with the conditions attached to the grant. Grant revenue is recognised on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

Deferred income

License agreements for the right to sell the Group's products in given markets are generally granted by the Group for a specific time period and consideration. Consideration received for the license is initially deferred, included in other liabilities, and recognized on a straight-line basis over the corresponding license period.

Interest and dividends

Interest income is recorded when earned based on cash balances. Interest expenses are reported on an accrual basis using the effective interest method. Dividends are recognised at the time the right to receive payment is established.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(s) Income tax and other taxes

Deferred income tax is provided on all temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for the financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(t) Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to members of the parent entity for the reporting year, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares of EPS calculation purposes), by weighted average number of ordinary shares of the Group, adjusted for any bonus issue.

(u) Employee benefits

Termination benefits

Termination benefits are recognised as an expense when the Group is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

Long Term Employee Benefits

The Group's liabilities for annual leave and long service leave are included in other long term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

The Group presents employee benefit obligations as current liabilities in the statement of financial position if the Group does not have an unconditional right to defer settlement for at least twelve (12) months after the reporting period, irrespective of when the actual settlement is expected to take place.

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled. Employee benefit expenses are presented separately on the face of the statement of profit or loss and other comprehensive income. There are no employee-benefit expenses recognised within cost of sales

Share-based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

(v) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

- Raw materials: purchase cost on a first-in/first-out basis
- Finished goods and work in progress: cost of direct materials and labour and a proportion of manufacturing overheads based on the normal operating capacity, but excluding borrowing costs

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(w) Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation 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 consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Share-based payments

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. The Group initially measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which is dependent 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, volatility and dividend yield and making assumptions about them. 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 profit or loss. This requires a reassessment of the estimates used at the end of each reporting period. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 17.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 24 for further disclosures.

(y) Going Concern

These financial statements have been prepared on the basis of going concern, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the financial year ended 30 June 2017, the Group has generated a loss for the period of \$12,155,268 (2016: \$15,444,871) and the Group has used cash in operations of \$12,727,522 (2016: \$10,076,361). The Company signed a US\$10 million debt facility on 28 September (Note 28), funds from which will be used to refinance the Group's existing debt which will lower the interest rate and extend the interest only repayment terms out substantially. The remaining balance will be used for providing additional working capital to support a growing sales pipeline. This facility will not require principal payments for a three-year period, which allows the Company to fully utilize the capital. Further, several new contracts for high margin core products have been signed since 30 June 2017 and the Company continues to realize reductions in selling, general and administrative expenses.

The director's assessment is based on continued growth in revenue and commercial sales which the company expects to continue over the next twelve months, the addition of a long-term debt facility, and continued reduction in expenses. The directors are satisfied that there is sufficient working capital to support the committed research and commercialization activities over the next 12 months and the Group has the ability to realize its assets and pay its liabilities and commitments in the normal course of business. Accordingly, the directors have prepared the financial report on a going concern basis. Should the Group not be able to achieve its increased margins and or cost savings, the Group may be unable to continue as a going concern, in which case it may be required to realise its assets and or settle its liabilities other than in the ordinary course of business and at amounts different from those stated in the financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

3. REVENUE & OTHER INCOME

Consolidated

	2017 (\$)	2016 (\$)
Sales	23,812,561	3,001,203
Other income (a)	209,837	412,701
	<u>24,022,398</u>	<u>3,413,904</u>
Interest received	12,018	44,028

(a) Other income

During the period the Group received \$209,837 (2016: 394,626) in grant revenue from the South Carolina Research Authority (SCRA). There were no other forms of government assistance from which the Group has directly benefited.

4. ADMINISTRATIVE EXPENSES

Consolidated

	2017 (\$)	2016 (\$)
Advertising and marketing	248,296	435,362
Insurance expenses	76,900	85,912
Occupancy	237,186	212,802
Other administrative expenses	950,358	627,200
Total administrative expenses	<u>1,512,740</u>	<u>1,361,276</u>

5. DEPRECIATION AND AMORTISATION EXPENSE

Consolidated

	2017 (\$)	2016 (\$)
Depreciation	342,938	189,011
Amortisation	16,303	15,462
Total depreciation and amortisation expenses	<u>359,241</u>	<u>204,473</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

6. AUDITORS' REMUNERATION

The Group's auditor is Grant Thornton Audit Pty Ltd

	Consolidated	
	2017 (\$)	2016 (\$)
Amount received or due and receivable by Grant Thornton Audit Pty Ltd for:		
(a) an audit or review of the financial report of the entity and any other entity in the consolidated group	160,290	159,725
(b) Other services in relation to the entity and any other entity in the consolidated group- Services in connection with NASDAQ Listing	56,178	-
	216,468	159,725
Amount received or due and receivable by related practices of Grant Thornton Audit Pty Ltd for:		
(a) an audit or review of the financial report of the entity and any other entity in the consolidated group	-	55,881
(b) Other services in relation to the entity and any other entity in the consolidated group	-	-
	-	55,881

7. TAXATION

(a) Income tax recognised in profit and loss

	2017 (\$)	2016 (\$)
Prima facie tax on operating loss before income tax at 27.5%	(3,342,699)	(4,633,461)
Tax effect of temporary differences	(34,255)	138,714
Tax effect of permanent differences:		
- Meals and entertainment	18,449	21,431
- Interest on convertible	61,831	-
- Share based payments expense	145,468	1,252,557
- Lobbying expenses	84,997	55,381
- Differences in jurisdictional tax rates	(888,382)	153,715
Tax losses not brought to account	3,954,591	3,011,663
Income tax benefit attributable to reversal of deferred tax liability on intangible assets	-	-

(b) Deferred tax assets

Deferred tax assets at 30 June brought to account:		
Employee benefits	-	196
Accrued expenses	39,091	15,555
Expenses deducted over 5 years	17,636	-
Income tax losses	632,028	1,081,492
	688,755	1,097,243

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

	2017 (\$)	2016 (\$)
(c) Deferred tax liability		
Unrealized FX	682,382	1,067,905
Basis difference on fixed assets	6,373	29,338
	<u>688,755</u>	<u>1,097,243</u>
(d) Net deferred tax position		
Deferred Tax Assets	688,755	1,097,243
Deferred Tax Liabilities	688,755	1,097,243
Net deferred tax position	<u>-</u>	<u>-</u>
(e) Deferred tax assets not recognised		
Charitable contributions	47,454	23,324
Accrued and prepaid expenses	72,666	240,315
Basis difference on intangibles and start-up costs	198,866	227,520
Deferred revenue	11,863	6,425
Income tax losses	<u>12,581,337</u>	<u>8,749,641</u>
Net deferred tax position	<u>12,912,186</u>	<u>9,247,225</u>

No income tax is payable by the Group. The Directors have considered it prudent not to bring to account the future income tax benefit of income tax losses until it is probable of deriving assessable income of a nature and amount to enable such benefit to be realised.

The Group has estimated unrecouped income tax losses of \$38,980,562 (2016: \$28,692,531) which may be available to offset against taxable income in future years.

The benefit of these losses and timing differences will only be obtained if there is sufficient probability that taxable profits will be generated by the Group in future periods.

Deferred tax assets and liabilities which relate to income taxes levied by the same taxation authority are offset where the Group intends to settle those tax assets and liabilities on a net basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

8. EARNINGS PER SHARE

Classification of securities as ordinary shares

The Group has only one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares

There are currently no securities to be classified as dilutive potential ordinary shares on issue.

	Consolidated	
	2017 Number	2016 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>303,827,998</u>	<u>221,497,028</u>
	\$	\$
Basic loss	<u>(12,155,268)</u>	<u>(15,444,871)</u>
Basic / Diluted loss per share	<u>(0.0403)</u>	<u>(0.0697)</u>

The above calculation does not include instruments that could potentially dilute basic earnings per share in the future as these instruments were anti-dilutive in the years presented. A summary of such instruments is as follows:

Equity securities

	Consolidated	
	2017 Number of securities	2016 Number of securities
Options over ordinary shares	13,491,626	16,882,357
Performance Rights	-	3,250,000
	<u>13,491,626</u>	<u>20,132,357</u>

The Group has incurred a loss for the year. The diluted earnings per share is therefore disclosed as the same as the basic earnings per share.

9. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Trade debtors	1,365,116	136,544
Other receivables	<u>62,792</u>	<u>55,218</u>
	<u>1,427,908</u>	<u>191,762</u>

None of the trade and other receivables are past due or impaired.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

10. INVENTORIES

	Consolidated	
	2017 (\$)	2016 (\$)
Raw materials	1,396,553	1,568,559
Finished goods	694,475	88,110
Total inventory	<u>2,091,028</u>	<u>1,656,669</u>

11. PROPERTY, PLANT & EQUIPMENT

Cost or valuation	Furniture & Equipment \$	Leased Assets \$	Construction In Progress \$	Total \$
Balance at 30 June 2015	728,879	436,046	-	1,164,925
Additions	161,493	-	322,838	484,331
Disposals	(18,838)	-	-	(18,838)
Foreign exchange movements	1,462	12,687	607	14,756
Balance at 30 June 2016	<u>872,996</u>	<u>448,733</u>	<u>323,445</u>	<u>1,645,174</u>
Additions	232,380	701,809	1,115,778	2,049,967
Disposals	(107,614)	-	-	(107,614)
Transfers	1,428,914	-	(1,428,914)	-
Foreign exchange movements	(67,175)	(30,361)	(10,309)	(107,845)
Balance at 30 June 2017	<u>2,359,501</u>	<u>1,120,181</u>	<u>-</u>	<u>3,479,682</u>
Depreciation and impairment				
Balance at 30 June 2015	362,513	287,793	-	650,306
Depreciation	134,566	54,445	-	189,011
Disposals	(18,838)	-	-	(18,838)
Foreign exchange movements	752	7,205	-	7,957
Balance at 30 June 2016	<u>478,993</u>	<u>349,443</u>	<u>-</u>	<u>828,436</u>
Depreciation	236,294	106,644	-	342,938
Disposals	(102,311)	-	-	(102,311)
Foreign exchange movements	(18,071)	(13,230)	-	(31,301)
Balance at 30 June 2017	<u>594,905</u>	<u>442,857</u>	<u>-</u>	<u>1,037,762</u>
Net book value				
At 30 June 2015	366,366	148,253	-	514,619
At 30 June 2016	<u>394,003</u>	<u>99,290</u>	<u>323,445</u>	<u>816,738</u>
At 30 June 2017	<u>1,764,596</u>	<u>677,324</u>	<u>-</u>	<u>2,441,920</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

12. INTANGIBLE ASSETS

	Consolidated	
	2017 (\$)	2016 (\$)
Patents and intellectual property		
Cost		
Balance at 1 July	275,697	313,408
Additions	20,293	-
Impairment	-	-
Foreign exchange movements	(16,847)	(37,711)
Balance at 30 June	<u>279,143</u>	<u>275,697</u>
Depreciation and impairment		
Balance at 1 July	127,243	128,561
Amortisation	16,303	15,462
Impairment	-	-
Foreign exchange movements	(7,702)	(16,780)
Balance at 30 June	<u>135,844</u>	<u>127,243</u>
Net book value	<u>143,299</u>	<u>148,454</u>

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income. The ultimate recoupment of costs carried forward for intellectual property is dependent on the successful development and commercial exploitation of the Group's technology. In accordance with Note 2(h) on significant accounting policies, amortisation will be calculated on a straight-line basis over the average useful life of the patents being 17 years.

13. TRADE AND OTHER PAYABLES

	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Trade creditors	1,422,784	1,641,205
Other creditors	407,253	1,175,968
	<u>1,830,037</u>	<u>2,817,173</u>

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days or recognition.

14. DEFERRED INCOME

	Consolidated	
	2017 (\$)	2016 (\$)
Current		
Deferred income	<u>32,458</u>	<u>18,365</u>

At period end the Group had sales orders which were paid in advance and had not shipped. Revenue will be recognized for the sales upon shipment of the materials. For the comparative period, the Group received payment for licensing agreements with third-parties. The license fees were received at the beginning of the license period and amortized ratably over the life of the agreement. All license fees have been recognized as revenue as of the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

15. BORROWINGS

On December 30, 2016, the Company entered a credit facility, secured by the company's assets, with institutional lenders to increase working capital for purchase of materials required to fulfil sales orders. The USD\$5 million facility carries a fifteen-month term and 15% annual interest rate. The Borrowings have been measured at fair value through profit or loss.

	2017 (\$)	2016 (\$)
Credit Facility	5,665,227	-
Current capital leases payable	189,149	38,526
	<u>5,854,376</u>	<u>38,526</u>
Non-current leases payable	394,077	18,549
	<u>6,248,453</u>	<u>57,075</u>

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. Pricing model inputs include; exercise price (0.75), risk-free rate (1.9%), remaining term (2.5 years) and volatility (66%).

	2017 (\$)	2016 (\$)
Derivative Liability	1,056,403	-
	<u>1,056,403</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

16. CONTRIBUTED EQUITY

(a) Issued Capital

	2017 Shares	2016 Shares	2017 \$	2016 \$
Ordinary shares fully paid	303,827,998	298,736,791	52,820,041	51,634,479

(b) Movement in share capital

Balance at beginning of year	298,736,791	261,350,490	51,634,479	41,363,396
Options converted to shares	4,202,083	18,422,163	663,033	3,906,113
Capital raising	-	9,677,420	-	6,000,000
Conversion of performance rights	-	8,385,000	-	-
Costs of capital raising	-	-	-	(369,000)
Shares issued in lieu of salary and sales achievement	535,713	312,288	319,749	279,280
Shares issued in lieu of services	353,411	589,430	202,780	454,690
Totals	303,827,998	298,736,791	52,820,041	51,634,479

(c) Movements in Performance Rights

	2017 Number	2016 Number	2017 \$	2016 \$
Balance at beginning of year	3,250,000	8,500,000	395,850	464,100
Rights expired during year	(3,250,000)	-	(395,850)	-
Rights forfeited during year	-	(115,000)	-	(6,279)
Rights converted to shares during year	-	(8,385,000)	-	(457,821)
Rights issued, net of costs	-	3,250,000	-	395,850
	-	3,250,000	-	395,850

(d) Share options issued

At the year-end, there were 6,916,626 free attaching options outstanding (2016: 7,863,607) and 6,575,000 share based payment options outstanding (2016: 9,018,750). Refer to Note 17(c) for details of the share based payment options outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(e) Movements in share options

Year 2017	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
Unlisted options	30/11/12	\$0.08	31/12/16	1,500,000	-	(1,500,000)	-	-
Unlisted options	10/11/14	\$0.25	9/11/16	946,981	-	(858,333)	(88,648)	-
Unlisted options	10/11/14	\$0.198	9/11/17	750,000	-	(750,000)	-	-
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	20/5/15	\$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	-	(940,000)	-	30,000
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	-	(60,000)	-	1,065,000
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	(4,202,083)	(88,648)	13,491,626

- 88,648 options expired during the current year (2016: 770,480).
- 3,343,750 share based payment options were exercised during the current year (2016: 14,555,770)
- 858,333 free attaching options were exercised during the current year (2016: 3,866,393)
- All options were exercised for an equivalent number of ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Year 2016	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
Unlisted options	21/03/11	\$0.15	31/12/15	4,355,000	-	(4,124,520)	(230,480)	-
Unlisted options	21/09/11	\$0.15	31/12/15	5,000,000	-	(5,000,000)	-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-	(1,000,000)	-	-
Unlisted options	30/11/12	\$0.08	31/12/16	2,500,000	-	(1,000,000)	-	1,500,000
Unlisted options	22/06/11	\$0.10	24/06/16	540,000	-	-	(540,000)	-
Unlisted options	10/11/14	\$0.25	9/11/16	3,930,000	-	(2,983,019)	-	946,981
Unlisted options	10/11/14	\$0.198	9/11/17	750,000	-	-	-	750,000
Unlisted options	01/09/14	\$0.18	31/08/17	450,000	-	(275,000)	-	175,000
Unlisted options	13/05/15	\$0.70	31/12/17	1,000,000	-	(500,000)	-	500,000
Unlisted options	13/05/15	\$0.80	31/12/17	1,000,000	-	-	-	1,000,000
Unlisted options	20/5/15	\$0.13	31/08/17	1,500,000	-	(1,470,000)	-	30,000
Unlisted options	06/05/15	\$0.75	07/05/18	7,800,000	-	(883,374)	-	6,916,626
Unlisted options	06/08/15	\$0.16	31/08/17	-	1,500,000	(530,000)	-	970,000
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	-	1,500,000	(375,000)	-	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	-	1,500,000	(281,250)	-	1,218,750
				29,825,000	6,250,000	(18,422,163)	(770,480)	16,882,357

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.

(f) Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(g) Capital management

The Company's objectives in managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits for the stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

17. SHARE-BASED PAYMENTS

The following is the summary of share based payments expensed during the year, \$377,529 is included in employee benefits expense and \$528,974 is included as share-based payments.

	2017		2016	
	Number	\$	Number	\$
(a) Shares issued during the year and agreed to issue	1,320,388	786,301	901,718	733,970
(b) Performance Rights issued to the directors	Nil	Nil	3,250,000	395,850
(c) Options issued during the year	900,000	120,202	6,250,000	3,779,340

(a) Shares

The equity-settled share-based payments provided during the year related to:

- (i) 250,000 shares issued in lieu of incentive payment for sales achievement
- (ii) 716,977 shares issued or agreed to be issued in lieu of salary to the Directors of the Company. The Company agreed and approved at the 2016 AGM on 21 November 2016. Includes 431,264 shares to be issued to Nick Clark.
- (iii) 353,411 shares issued in lieu of services provided by the external consultants of the Company.

(b) Performance rights

No performance rights were issued during 2017 financial year.

In relation to performance rights issued during 2016 financial year: The performance rights issued during 2016 have been valued by internal management taking into account of probability of market based conditions, unlisted status and transferability restrictions. The performance rights expired 30 June 2017.

The Company agreed and approved at the 2015 AGM on 9 November 2015 to issue 3,250,000 performance rights to the Directors of the Company. Based on the assumptions set out below, the performance rights issued during the period were ascribed to the following value:

Valuation date	9-Nov-15
Market price of shares	87 cents
Price payable on vesting	Nil
Discount (probability - market based conditions)	80%
Discount (unlisted status and transferability restrictions)	30%
Value per performance rights	12.18cents
Total value of director performance rights	\$395,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(c) Options

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in share based payment options.

	2017		2016	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	9,018,750	\$ 0.39	18,095,000	\$ 0.36
Granted during the year	900,000	\$ 1.25	6,250,000	\$ 0.36
Reinstated during the year	-	\$ -	-	\$ -
Forfeited during the year	-	\$ -	-	\$ -
Exercised during the year	(3,343,750)	\$ 0.13	(14,555,770)	\$ 0.17
Expired during the year	-	\$ -	(770,480)	\$ 0.12
Outstanding at 30 June	<u>6,575,000</u>	\$ 0.63	<u>9,018,750</u>	\$ 0.39

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 0.13 years (2016: 1.42 years), and the exercise prices range from 18 cents to 175 cents (2016: 8 cents to 131.4 cents).

The assessed fair values of the options 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:

	30-Jun-17			30-Jun-16		
	Number	value per option	\$	Number	value per option	\$
a) Services rendered	900,000	0.1336	120,202	4,500,000	0.6267	2,820,310
b) Directors	-	-	-	1,750,000	0.5480	959,030
	900,000		120,202	6,250,000		3,779,340

2017

	Services rendered		
	300,000	300,000	300,000
(No.) of options issued	300,000	300,000	300,000
Spot price of 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
Volatility	60%	60%	60%

2016

	Services rendered			Directors		
	0.75	0.95	0.695	1.05	0.87	0.87
Spot price of asset	0.75	0.95	0.695	1.05	0.87	0.87
Exercise price	0.16	0.18	0.20	0.75	1.207	1.314
Risk free rate (%)	1.935%	1.840%	1.76%	2.130%	2.015%	2.015%
Start date	6/08/2015	4/11/2015	26/02/2016	1/10/2015	9/11/2015	9/11/2015
Expiry date	31/08/2017	31/08/2017	31/08/2017	30/09/2020	9/11/2017	9/11/2017
Volatility	55.5%	55.5%	60%	55.5%	55.5%	55.5%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

18. RESERVES

2017	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	-	-	(198,552)	(198,552)
Balance at 30 June 2017	7,203,859	759,360	1,009,994	8,973,213

2016	Option premium reserve	Performance rights reserve	Foreign currency translation reserve	Total reserve
	\$	\$	\$	\$
Balance at 1 July 2015	3,304,317	363,510	749,255	4,417,082
Share-based payment expense	3,779,340	-	-	3,779,340
Performance rights expense	-	395,850	-	395,850
Foreign currency translation differences arising during the year	-	-	459,291	459,291
Balance at 30 June 2016	7,083,657	759,360	1,208,546	9,051,563

19. ACCUMULATED LOSSES

	Consolidated	
	2017 (\$)	2016 (\$)
Balance at beginning of year	(49,418,512)	(33,973,641)
Net loss attributable for the year	(12,155,268)	(15,444,871)
Balance at end of year	(61,573,780)	(49,418,512)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and deposits at call, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the year as shown in the statement of cash flows are reconciled to the related item in the statement of financial position as follows.

	Consolidated	
	2017 (\$)	2016 (\$)
Cash on hand	3,409,783	11,218,556

(b) Reconciliation of operating loss after income tax to net cash used in operating activities

	Consolidated	
	2017 (\$)	2016 (\$)
Operating loss after income tax	(12,155,268)	(15,444,871)
Non-cash items		
Depreciation and amortisation of non-current assets	359,241	(204,473)
Share-based payment	528,974	4,909,160
Fair value movement- embedded derivative	189,276	-
Interest and amortisation on cost of raising borrowings	596,184	-
Unrealised foreign exchange (gains) / losses	(1,967)	(8,586)
Changes in assets and liabilities net of effect of purchase of subsidiaries		
(Increase) / Decrease in trade and other receivables	(1,240,696)	(72,485)
(Increase) / Decrease in inventories on hand	(434,359)	(1,584,204)
(Increase) / Decrease in other current assets	(10,259)	266,808
Increase / (Decrease) in trade and other payables	(987,136)	2,149,608
Increase / (Decrease) in other current liabilities	428,488	(87,318)
Net cash (used in) operating activities	(12,727,522)	(10,076,361)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(c) Reconciliation of property, plant and equipment additions to investing activities

	Consolidated	
	2017 (\$)	2016 (\$)
Property, plant and equipment additions per note 11	2,049,967	484,331
Non-cash items		
Addition of financing leases	(701,809)	-
Foreign exchange movement on transfers	(10,309)	-
Change in liabilities related to additions		
(Increase) / Decrease in current liabilities	259,829	(302,847)
Purchase of property, plant and equipment per statement of cash flows	<u>(1,597,678)</u>	<u>(181,484)</u>

21. RELATED PARTY TRANSACTIONS

(a) American Security Project

During the period, the following was paid to American Security Project, a related party of Brig. Gen. Stephen Cheney, Non Executive Director:

- (ii) US\$51,240 (2015: US\$28,500) was for lease charges on office space in Washington D.C.
- (iii) US\$50,000 (Nil: 2015) contribution to "Pathways to the Future of US-Cuba Relations" program which facilitated access to high level government and military officials in order to further our efforts in the protective military garment space.

22. SEGMENT REPORTING

For management purposes, the Group is organised into one main operating segment which involves the development and licensing of its proprietary flame retardant (FR) and phase change material (PCM) chemistries, reactive surface treatment (RST) technologies, and selling its specialized chemistry to customers. All of the Group's activities are interrelated and discrete financial information is reported to the Chief Executive Officer (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.

Geographic information of revenue and non-current assets excluding financial instruments are as follows:

	Australia	US	Cyprus	Total
2017				
Sales Revenue	-	23,812,561	-	23,812,561
Interest Revenue	7,884	4,134	-	12,018
Other Income	-	209,837	-	209,837
Interest Expense	35,562	560,622	-	596,184
Property, Plant and Equipment	4,935	2,391,217	45,768	2,441,920
Intangible assets	-	16,671	126,627	143,298
Depreciation and Amortisation	4,359	337,676	17,206	359,241
2016				
Sales Revenue	-	3,001,203	-	3,001,203
Interest Revenue	20,278	23,750	-	44,028
Other Income	11,197	401,504	-	412,701
Interest Expense	133	-	-	133
Property, Plant and Equipment	9,294	754,142	53,301	816,737
Intangible assets	-	-	148,454	148,454
Depreciation and Amortisation	4,060	179,735	20,678	204,473

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

23. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Percentage Owned (ordinary shares)	
		2017 (%)	2016 (%)
Parent Entity			
Alexium International Group Limited	Australia		
Subsidiaries of Alexium International Group Limited			
Alexium Limited	Cyprus	100	100
Alexium Inc.	United States of America	100	100

The parent entity has an interest free unsecured loan with Alexium Inc. amounting to \$30,920,270 (2016: \$30,763,029).
The parent entity has an interest free unsecured loan with Alexium Ltd amounting to \$388,171 (2016: \$412,977).

24. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Group is exposed to interest rate risk through primary financial assets and liabilities. The carrying amounts of financial assets and financial liabilities held at balance date approximate their estimated net fair values and are given below. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

The Group's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Maturity Dates Less than 1 Year	Fixed Maturity Dates 1-5 Years	Fixed Maturity Dates 5+ years	Non-Interest Bearing	Total
	%	\$	\$	\$	\$	\$	\$
2017							
Financial Assets							
Cash and cash equivalents	0.21	1,156,987	-	-	-	2,252,796	3,409,783
Trade and other receivables/other financial assets		-	-	-	-	1,427,908	1,427,908
		<u>1,156,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,680,704</u>	<u>4,837,691</u>
Financial Liabilities							
Trade and other payables		-	-	-	-	1,830,037	1,830,037
Borrowings		-	5,854,376	394,077	-	-	6,248,453
Derivative Liability		-	-	1,056,403	-	-	1,056,403
		<u>-</u>	<u>5,854,376</u>	<u>1,450,480</u>	<u>-</u>	<u>1,830,037</u>	<u>9,134,893</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2016

Financial Assets

Cash and cash equivalents	0.46	10,092,812	-	-	-	1,125,744	11,218,556
Trade and other receivables/other financial assets		-	-	-	-	191,762	191,762
		10,092,812	-	-	-	1,317,506	11,410,318

Financial Liabilities

Trade and other payables		-	-	-	-	2,817,173	2,817,173
		-	-	-	-	2,817,173	2,817,173

(b) Interest rate risk

At 30 June 2017, if interest rates had increased by 1% from the year end variable rates with all other variables held constant, post tax profit and equity for the Group would have been \$34,098 higher (2016: changes of 1% \$112,186 higher/\$112,186 lower) based on cash and cash equivalent held at variable rates.

The 1% (2016: 1%) sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical RBA movements over the last year.

(c) Foreign currency risk

The Group currently conducts its operations across international borders.

A proportion of the Group's revenues, cash inflows, other expenses, capital expenditure and commitments are denominated in foreign currencies, namely with costs and income in US dollars, GBP and Euro initially.

To comply with Australian reporting requirements, the income, expenditure and cash flows of the Group will need to be accounted for in Australian dollars. This will result in the income, expenditure and cash flows of the Group being exposed to the fluctuations and volatility of the rate of exchange between other currencies and the Australian dollar, as determined in international markets.

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the parent or USD functional currency of US Alexium Inc. or the UK pound sterling functional currency of Alexium Ltd.

With instruments being held by overseas operations, fluctuations in the US dollar and UK pound sterling may impact on the Group's financial results. The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations.

2017 Consolidated	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	30,920,270	-	388,171	-	31,308,441
US dollar	-	-	(887,742)	-	(887,742)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	30,920,270	-	(499,571)	-	30,420,699

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

2016 Consolidated	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	30,763,029	-	412,977	-	31,176,006
US dollar	-	-	(1,045,851)	-	(1,045,851)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	30,763,029	-	(632,874)	-	30,130,155

The above balances relate to intercompany loans between member companies of the Group.

(d) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. The Group does not hold any credit derivatives to offset its credit exposure. The Group's exposure to credit risk is minimal.

As the Group does not currently have any significant debtors, lending, stock levels or any other credit risk, a formal credit risk management policy is not maintained.

(e) Liquidity risk

The Group manages liquidity risk by continuously monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecasted cash inflows and outflows due in day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day basis, as well as based on a rolling 30-day projection. Long-term liquidity needs for a 180-day and 360-day period are identified monthly. Net cash requirements are compared to available borrowing facilities to determine headroom or shortfalls.

As at 30 June 2017, the Group's non-derivative financial liabilities have contractual maturities as summarised below:

2017 Consolidated	Current	1-5 Years	5+ years
Trade and other payables	1,862,495	-	-
Finance lease obligations	237,488	447,685	-
Borrowings	6,392,198		
Total	8,492,181	447,685	-

2016 Consolidated	Current	1-5 Years	5+ years
Trade and other payables	2,835,537	-	-
Finance lease obligations	43,025	19,095	-
Borrowings	-	-	-
Total	2,878,562	19,095	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

(f) Fair values of financial assets and liabilities

Cash and cash equivalents

The carrying amount approximates fair value because of their short-term to maturity.

Trade receivables and trade creditors

The carrying amount approximates fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

As at 30 June 2017 and 2016, there were no other financial assets and liabilities other than cash, trade receivables and payables, and borrowings.

Measurement of fair value of financial instruments

The Group's finance team performs valuations of financial items for financial reporting purposes, including Level 3 fair values, in consultation with third party valuation specialists for complex valuations. Valuation techniques are selected based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information. Valuation processes and fair value changes are discussed among the audit committee and the valuation team at least every year, in line with the Group's reporting dates.

Embedded derivatives (Level 3)

The assessed fair values of the derivatives were determined using a Black-Scholes option pricing model which approximates the results that would have been achieved by using a binomial lattice. The model takes into account the expected price volatility of the underlying instrument, expected dividend yield and the risk-free interest rate. A collection of comparable companies has been used as a proxy for the volatility determined. The embedded derivative liability is classified as non-current based on the warrant expiration date of three years from the issuance date of 30 December 2016.

The following shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 30 June 2017 and 30 June 2016

2017

	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Derivative Liability	-	-	1,056,403	1,056,403
Total Liabilities	-	-	1,056,403	1,056,403

2016

	Level 1	Level 2	Level 3	Total
Financial Liabilities				
Derivative Liability	-	-	-	-
Total Liabilities	-	-	-	-

There were no transfers Level 1 and Level 2 in 2017 or 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

25. PARENT ENTITY INFORMATION

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2017. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity	
	2017 (\$)	2016 (\$)
Current assets	350,689	1,150,760
Non-current assets	1,551,934	10,374,558
Total assets	1,902,623	11,525,318
Current liabilities	1,683,149	257,788
Non-current liabilities	-	-
Total liabilities	1,683,149	257,788
Contributed equity	52,820,041	51,634,479
Accumulated losses	(60,563,788)	(48,209,968)
Performance rights reserves	759,360	759,360
Options reserves	7,203,861	7,083,659
Total equity	219,474	11,267,530
Loss for the year	(12,353,820)	(14,985,582)
Other comprehensive income net of tax for the year	-	-
Total comprehensive income net of tax for the year	(12,353,820)	(14,985,582)

The Group's commitments and contingencies are detailed in Note 26.

26. COMMITMENTS AND CONTINGENCIES

The Group has the following contingent liabilities and commitments.

Alexium has entered into an agreement with the United States Department of Defense whereby Alexium owns exclusive rights for the RST Technology under patent application in the United States in exchange for a 2.5% gross sales royalty to be paid to the US Government. Alexium has also entered into an agreement with Dr Owens for exclusive rights to the rest of the world, for the same patent application excluding the United States, in exchange for a 5% gross sales royalty to be paid to Dr Owens. These royalties only apply where the RST technology is used in the product production process, which does not include all fire-retardant products.

(a) Commitments

Lease commitments

1) Operating leases

The Group leases certain premises under operating lease agreements. These premises are used for administration and operational activities with lease terms approximating 1-10 years. There are no contingent rent payments, and one lease is on month to month terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2017

Minimum future rental payments under non-cancellable leases having remaining terms in excess of one year are as follows as of June 30:

	Consolidated	
	2017 (\$)	2016 (\$)
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	161,114	85,261
Later than one year but not later than 5 years	<u>644,818</u>	<u>776,512</u>
	<u>805,932</u>	<u>861,773</u>

2) Finance leases

The Group leases certain equipment under financing leases expiring in various years through 2018, with terms ranging from 3 to 4 years. The assets and liabilities under financing leases are initially recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are depreciated over the shorter of their related lease terms or their estimated productive lives.

Depreciation of assets under financing leases is included in depreciation expense and totalled \$106,644 and \$54,445 for the years ended June 30, 2017 and 2016 respectively.

Present value of future minimum rental payments under financing leases having remaining terms in excess of one year are as follows as of June 30:

	2017 (\$)	2016 (\$)
Not later than one year	237,488	43,025
Later than one year and not later than five years	<u>447,685</u>	<u>19,095</u>
Total	<u>685,173</u>	<u>62,120</u>
Future finance charges on finance leases	<u>(101,947)</u>	<u>(5,046)</u>
Present value of finance lease liability	<u>583,226</u>	<u>57,074</u>

Present value of finance lease liabilities totals the following as of June 30:

	2017 (\$)	2016 (\$)
Not later than one year	189,149	38,652
Later than one year and not later than five years	<u>394,077</u>	<u>18,422</u>
Total	<u>583,226</u>	<u>57,074</u>

Lease liabilities are secured over property, plant, and equipment. These assets will revert back to the lessor in the event of a default, as described in the agreements.

The Group had no other commitments as at 30 June 2017.

(b) Contingencies

The Group has no other contingent liabilities as at 30 June 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. DIVIDENDS

No dividend has been declared or paid during the current financial year or the prior financial year.

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

28. SUBSEQUENT EVENTS

On 28 September 2017, the Group signed a US\$10 million senior secured credit facility with institutional lenders to provide working capital for purchase of materials required to fulfil sales orders, refinance the Group's existing debt, extend the term and reduce the interest rate. This credit facility is expected to fund 29 September 2017. 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

DIRECTOR'S DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and accompanying notes, as set out on pages 28 to 65 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Company's financial position as at 30 June 2017 and of its performance for the year ended on that date;
2. The Company has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards
3. The Chief Executive Officer has declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards;
 - (c) the financial statements and notes for the financial year give a true and fair view; and
 - (d) the remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.
4. The remuneration disclosure set out on pages 11 to 24 of the Directors' report (as part of the audited Remuneration Report) for the year ended 30 June 2017 comply with section 300A of the Corporations Act 2001.
5. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



Gavin Rezos
Non Executive Chairman
Perth, 29th September 2017

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Alexium International Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 Financial Report* section of our report. We are independent of the Group in accordance with the 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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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Material Uncertainty Related to Going Concern

We draw attention to Note 2(y) in the financial statements, which indicates that the Company incurred a net loss of \$12,155,268 during the year ended 30 June 2017, and cash outflows from operating activities of \$12,727,522. These events or conditions, along with other matters as set forth in Note 2(y), indicate that a material uncertainty exists that may cast doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Revenue – Note 3</p> <p>The Group recognises revenue from sales of its various chemical products, which has experienced significant growth of 693% over the prior period.</p> <p>Performance against market expectation places pressure to distort revenue recognition resulting in potential overstatement.</p> <p>This area is a key audit matter due to the risk of material misstatement due to fraudulent financial reporting relating to revenue recognition in accordance with ASA 240.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • understanding controls over the process to enter into, record and process revenue from chemical sales; • assessing the revenue recognition policies for appropriateness and compliance with AASB 118 <i>Revenues</i>, as well as reviewing consistency with the prior period; • performing cut-off procedures by sighting invoices and related delivery notices for a sample of revenue recognised during the year and subsequent to year-end; • confirmation procedures for revenue and related receivables for the top three customers, which make up 90% of total revenue and total receivables, respectively; • checking a sample of transactions from source data, including sales orders, invoices and shipping documents, to the general ledger to test that appropriate revenue recognition had been applied; • testing manual journal entries made by management to chemical sales accounts for adjustments or credit notes; • performing trend analysis procedures for revenue disaggregated by revenue stream and by month. Where movements were outside expectation an explanation was obtained along with corroborating evidence; and • assessing the appropriateness of financial statement disclosures.

Embedded Derivative – within Note 15 (Borrowings)	
<p>The Group entered into a \$5M USD debt facility during the period, which included the issuance of warrants identified as embedded derivatives. The facts leading it to be a key audit matter.</p> <p>An embedded derivative is a provision in a contract that modifies the cash flow of that contract by making it dependent on an underlying measurement. Determining the appropriate accounting treatment for embedded derivatives may be complex and involve significant management judgement.</p> <p>This area is a key audit matter due to the risk of material misstatement associated with the significant management judgment applied to determining the accounting treatment and associated estimates in applying fair value measurements.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • obtaining the loan agreements to understand of the transaction and its related terms; • tracing the funds received into the respective financial institution; • reviewing the Black-Scholes option pricing calculation of fair value of the embedded derivative to assess mathematical and clerical accuracy, as well as trace inputs to source documentation; • reviewing calculation of amortised cost and interest expense of the loan to assess mathematical and clerical accuracy, as well as trace inputs to source documentation; and • assessing the appropriateness of financial statement disclosures.

Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the Financial Report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 24 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Alexium International Group 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.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Hillgrove
Partner - Audit & Assurance

Perth, 29 September 2017

ADDITIONAL INFORMATION

The distribution of members and their holdings at 22 September 2017 was as follows:

NAME OF 20 LARGEST ORDINARY SHAREHOLDERS	NUMBER OF ORDINARY FULLY PAID SHARES HELD		% HELD OF ISSUED ORDINARY CAPITAL
J P MORGAN NOMINEES AUSTRALIA LIMITED	33,085,222	*	10.80%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED <EUROCLEAR BANK SA NV A/C>	10,000,000	*	3.27%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	8,899,753	*	2.91%
GEONICCLARK PTY LTD <GEONICCLARK SUPER A/C>	5,678,154	*	1.85%
MR MARTIN KEITH THOMAS & MRS HELEN PATRICIA THOMAS	5,431,500		1.77%
PIPER BUCHANAN LIMITED	5,431,500	*	1.77%
KORCULA (BVI) S A	4,812,000	*	1.57%
FLOREANT AMBO PTY LTD <REZOS FAMILY SUPER FUND A/C>	4,675,000	*	1.53%
MR EGAN HARVEY JOHNSON	3,725,000	*	1.22%
CATL PTY LTD <THE MINTO A/C>	3,480,000	*	1.14%
BNP PARIBAS NOMINEES PTY LTD <IB AU NOMS RETAILCLIENT DRP>	3,417,143		1.12%
DR STUART LLOYD PHILLIPS <STUART PHILLIPS FAMILY A/C>	3,290,000	*	1.07%
NOBILITAS PTE LTD	3,216,000		1.05%
MR ANIL BHASKAR UTTURKAR & MRS REKHA ANIL UTTURKAR <RUTNA SUPER FUND A/C>	3,200,000	*	1.04%
MR ROBERT NEAL BROOKINS	2,581,000	*	0.84%
DR STUART LLOYD PHILLIPS & MRS FIONA JANE PHILLIPS <SL & FJ PHILLIPS S/F A/C>	2,570,001	*	0.84%
CITICORP NOMINEES PTY LIMITED	2,556,564	*	0.83%
NATIONAL NOMINEES LIMITED	2,264,129	*	0.74%
BOND STREET CUSTODIANS LIMITED <LAM1 - D08047 A/C>	2,165,695		0.71%
DAVID RIVETT PTY LIMITED <SUPER FUND A/C>	2,120,000	*	0.69%
CANNOW PTY LTD <C & T FAMILY S/FUND A/C>	2,100,000		0.69%
	<u>114,698,661</u>		<u>37.45%</u>

MARKETABLE PARCEL

At 22 September 2017, 690 shareholders held less than a marketable parcel.

VOTING RIGHTS – ORDINARY SHARES

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

DISTRIBUTION OF SHAREHOLDERS

	Shareholders
1 - 1,000 shares	637
1,001 - 5,000 shares	1,666
5,001 - 10,000 shares	946
10,001 - 100,000 shares	1,937
100,001 and over	388
Total Ordinary Shareholders	<u>5,574</u>

SUBSTANTIAL SHAREHOLDERS

Shares held by substantial shareholders listed in the company's register at 21 September 2016 are indicated by * above.

STOCK EXCHANGE LISTING

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Ltd.

Alexium is fully quoted on the NASDAQ International.