

ALEXIUM FINANCIAL RESULTS

FOR THE PERIOD ENDED 30 JUNE 2018



ALEXIUM

HIGHLIGHTS FROM THE PERIOD

During the reporting period, the Group has undertaken a review of the business to implement measures for achieving profitability and growing the business. This review yielded the following key strategic objectives:

- To optimise and bolster Alexium's work in the three cornerstone initiatives;
- To revitalise the Sales and Marketing teams with increased focus in the core PCM business; and
- To ensure effectiveness of operational expenses.

Some of the key achievements for FY 2018 are as follows:

Expansion of Alexicool products into new market segments

Building on the successful launch of Alexicool into the bedding market, the Group has introduced a cost-effective and durable phase change material (PCM) finish into broader segments of the bedding market. Additionally, advances in the Alexicool product line have enabled the Group to expand its offerings to more components in the mattress.

Introduction of an analytical method for PCM-treated textiles

Due to a lack of established analytical methods for assessing the performance of PCM-treated textiles, the Group developed an analytical method for this purpose. This technique has been well received within the bedding market and has helped the Group establish a reputation as a supplier of quality PCM products.

Development of novel FR NyCo technology

In response to new market opportunities, the Group has developed a novel FR NyCo technology to provide a measure of flame retardant protection for a broader segment of military uniforms. This effort represents a significant increase in the value of the FR NyCo technology to the Company.

Commercialisation of Alexiflam NF

Over the past few years, the Group has developed a proprietary flame retardant treatment for cotton-rich fabrics. Completion of key milestones has advanced this product's commercial efforts across diverse market opportunities.

The advances in the three cornerstone initiatives have positioned the Group for a broader range of revenue streams, a more diverse customer base, and improved gross margins.

FINANCIAL RESULTS OVERVIEW

The Company has changed its presentation currency from the Australian Dollar to the US Dollar. This decision was made because the Company's operations, employees, suppliers and customers are almost entirely in the United States. This change is expected to reduce the impact of volatility related to foreign exchange. In this financial report, the comparative period (2017) is presented in US dollars.

During the reporting period the Group has taken significant measures to reduce operating expenses, review pricing, and better position Alexium to achieve profitability:

Sales & Gross Margin

Revenues from ordinary operating activities were \$12m (2017: \$18m). This decrease in revenue was offset by an increase in average gross margin across all lines of business to 20% (2017: 1%). This is a result of the Group's shift to an improved business model.

Operational Expenses

Operating costs decreased to \$6.6m from \$8.3m in 2017, this was primarily due to decreases in administrative and employee benefits expense and the capitalisation of \$0.7m of R&D activities into intangible assets in the PCM, FR cotton, and military markets.

Financing Activities

During the period the Group raised \$10m via a debt facility, \$8.9m via an institutional placement, and \$1.2m via a share purchase plan. Funds were used for the refinance of existing debt and fundamental balance sheet strength.

2019 OUTLOOK

During the reporting period, the Group continued to capitalise on the work and developments over the past several years which have positioned Alexium well in terms of its three cornerstone initiatives.

In FY2019, Alexium is committed to:

- expansion of Alexicool products in PCM markets for bedding;
- application of flame retardant nylon cotton blends for military uniforms;
- commercialisation of Alexiflam NF;
- further growth of Alexium's technology;
- ensuring a financially strong and stable business through detailed planning, responsible management and transparency of strategy and outcomes; and
- significant growth of the Group's revenue with reinvigorated sales teams.

The Group's business strategies to achieve the above goals include:

- strengthening and maintaining key relationships that support the Group's cornerstone initiatives;
- applying a disciplined and conservative approach to expenditure relative to sales growth;
- focusing on three cornerstone initiatives to produce near term revenue and contribute to growth; and
- leveraging the success of Alexicool products with sophisticated marketing strategies for increased market adoption.

Alexium Chief Executive Officer Dr. Bob Brookins stated, "Alexium has evolved significantly as a business over the last year. We are increasingly focused on the commercialisation strategies with which Alexium monetises and leverages the significant technologies that have been developed. The benefits of this shift are apparent in the new products being launched by Alexium customers this year, and we are committed to maintaining this momentum."



Rule 4.3A

Appendix 4E

Preliminary final report

Name of entity:

Alexium International Group Limited

ABN or equivalent company reference:

91 064 820 408

1. Reporting period

Reporting period:

Year ended 30 June 2018

Previous corresponding period:

Year ended 30 June 2017

2. Results for announcement to the market

\$USD

2.1 Revenue from ordinary activities	down	34%	to	11,931,935
2.2 Loss from ordinary activities for the period after tax attributable to members	down	57%	to	(3,961,119)
2.3 Net loss for the period attributable to members	down	57%	to	(3,961,119)
2.4 Dividends		Amount per security		Franked amount per security
Final dividend		Nil		N/A
Interim dividend		Nil		N/A
2.5 Record date for determining entitlements to the dividends		N/A		

3. NTA backing

	Current Period 2018	Previous Period 2017
Net tangible asset backing (deficiency) per ordinary share	1.80 cents	0.02 cents

Notice of Currency Change

The Company recently announced a change to Alexium's presentation currency from the Australian Dollar to the US Dollar. With the Company's operations, employees, suppliers and customers being almost entirely in the United States, this change helps provide a clearer picture of financial results and reduces almost all volatility related to foreign exchange. This financial report, the comparative period within, and all future financial reports, will therefore be presented in US Dollars.

Compliance Statement

The financial statements on which this report is based have been audited.

Annual General Meeting

The AGM will be held in Sydney on 14 November 2018



ALEXIUM INTERNATIONAL GROUP LIMITED

ABN 91 064 820 408

FINANCIAL REPORT

FOR THE PERIOD ENDED

30 JUNE 2018
Presented in US Dollars

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COMPANY DIRECTORY

ALEXIUM INTERNATIONAL GROUP LIMITED

DIRECTORS:	Ms Susan Thomas Brigadier General Stephen Cheney Mr Craig Metz Ms Karen Thurman Ms Claire Poll Dr Robert Brookins
COMPANY SECRETARY:	Mr Kevin Kye (Resigned 27 February 2018) Ms Maja McGuire (Appointed 27 February 2018)
REGISTERED OFFICE:	Level 11, 125 St Georges Terrace Perth WA 6000 Telephone: +61 8 9384 3160
AUDITORS:	Grant Thornton Audit Pty Ltd Level 43 Central Park 152-158 St Georges Terrace Perth WA 6000
SHARE REGISTRY:	Automic Registry Services Level 2, 267 St Georges Terrace Perth WA 6000 Telephone: 1300 288 664
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 (Perth) Limited ASX Code: AJX NASDAQ International Designation Ticker: AXXIY

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Your Directors present their report on Alexium International Group Limited ("the Company" or "Alexium") and the consolidated entity (referred to hereafter as "the Group") for the period ended 30 June 2018.

The Company recently announced a change to Alexium's presentation currency from the Australian Dollar to the US Dollar. With the Company's operations, employees, suppliers and customers being almost entirely in the United States, this change helps provide a clearer picture of financial results and reduces almost all volatility related to foreign exchange. This financial report, the comparative period within, and all future financial reports, will therefore be presented in US Dollars.

DIRECTORS

The Directors of the Company in office during the period ended 30 June 2018 and until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

- Ms Susan Thomas (Appointed 11 December 2017)
- General Stephen Cheney
- Mr Craig Metz
- Ms Claire Poll (Appointed 11 December 2017)
- Ms Karen Thurman
- Dr Robert Brookins (Appointed 13 July 2018)
- Mr Gavin Rezos (Resigned 9 May 2018)
- Dr Dirk Van Hyning (Appointed 13 November 2017; Resigned 31 May 2018)
- Dr Nicholas Clark (Resigned 1 August 2017)

PRINCIPAL ACTIVITIES

The development of specialty chemicals where there is a market opportunity for commercialisation. During the period activities included:

- Research and development in consultation with end clients;
- Obtaining patents in relation to new products developed; and
- Commercialisation and sales of the products.

DIVIDENDS

No dividend was paid during the period and the Board has not recommended the payment of a dividend.

SHARE CAPITAL

345,443,598 ordinary shares and 2,400,000 unlisted options were on issue as at 30 June 2018.

OPERATING AND FINANCIAL REVIEW

Operations and Technology Review

The Group maintains its operating headquarters in Greer, South Carolina, USA. The research, development, sales, and administration are all conducted out of a new custom-designed facility completed during 2017. With this facility, the Group is positioned to focus its resources on technology development and commercialisation and to continue to leverage a non-capital-intensive manufacturing model for the production of its products. As outlined in the Appendix 4C for the period ended 30 June 2018, the Group's strategy and efforts to date have focused on the development and commercialisation of high-performance products for phase change materials (PCMs) and flame retardants applications. The Group's current focus revolves around three cornerstone initiatives:

1. Expansion of Alexicool® products in Phase Change Material (PCM) markets;
2. Application of flame retardant nylon cotton blends (FR NyCo) for military uniforms; and
3. Commercialisation of Alexiflam NF®.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Over this past year, Alexium has significantly progressed these initiatives. Some of the key achievements for FY 2018 are as follows:

Expansion of Alexicool products into new market segments: Building on the successful launch of Alexicool into the bedding market, the Group has introduced this cost-effective and durable phase change material (PCM) finish into broader segments of the bedding market. Additionally, advances in the Alexicool product line have enabled the Group to expand its offerings to more components in the mattress.

Introduction of an analytical method for PCM-treated textiles: Due to a lack of established analytical methods for assessing the performance of PCM-treated textiles, the Group developed an analytical method for this purpose. This technique has been well received within the bedding market and has helped the Group establish a reputation as a supplier of quality PCM products.

Development of novel FR NyCo technology: In response to new market opportunities, the Group has developed a novel FR NyCo technology to provide a measure of flame retardant protection for a broader segment of military uniforms. This effort represents a significant increase in the value of the FR NyCo technology to the Company.

Commercialisation of Alexiflam NE: Over the past few years, the Group has developed a proprietary flame-retardant treatment for cotton rich fabrics. Completion of key milestones has advanced this product's commercial efforts across diverse market opportunities.

The advances in the three cornerstone initiatives have positioned the Group for a broader range of revenue streams, a more diverse customer base, and improved gross margins.

During the reporting period the Group has taken significant measures to reduce operating expenses, review pricing, and better position Alexium to achieve profitability.

Financial Result Overview

The Group's net loss attributable to members of the Group for the financial year ended 30 June 2018 was \$3,961,119 (2017: 9,136,923). This represents a 57% decrease in net loss over the prior period. The primary drivers behind this improvement in net loss are described below.

Revenues from ordinary operating activities were \$11,911,816 (2017: \$17,929,361). This decrease in revenue was offset by an increase in gross profit of \$2,114,067 during the period. Gross profit for the period was \$2,354,942 (2017: \$240,875) representing an average gross margin percentage across all lines of business of 20% (2017: 1%). This is a result of the Group's shift to an improved business model.

Operating costs decreased to \$6,584,616 from \$8,286,959 in the prior period primarily due to decreases in administrative and employee benefits expense and the capitalisation of \$662,717 of R&D activities into intangible assets in the PCM, FR cotton, and military markets.

In December 2017, the Company raised \$10.1m through the issuance of securities. This included a placement of 34.3m new shares issued at AU \$0.35 to provide US \$8.9m in capital and a share purchase plan offering which raised an additional US \$1.2m. These funds are being used for fundamental balance sheet strength ahead of anticipated customer production ramp-up, expansion in additional analytical equipment, product testing, and IP protection.

In September 2017, the Company entered into a secured debt facility with US based GPB Debt Holdings II LLC (the Note). The Note provided \$10m to fund key operational and strategic projects focused on profitability and growth. As part of the Note, Alexium agreed to issue GPB warrants for the issue of 4,255,319 ordinary shares with a five-year term at an exercise price of AU \$0.47 per share. The exercise price of the warrants was adjusted to AU \$0.35c (the price of the December 2017 placement.)

As at 30 June 2018 the cash position was \$10,641,763 (2017: \$2,620,759) and the Group had 345,443,598 ordinary shares on issue (2017: 303,827,998).

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

During the reporting period, the composition of the board changed with the retirement of former Executive Director Nick Clark on 19 July 2017, retirement of former Chairperson Gavin Rezos on 9 May 2018, and retirement of Dirk Van Hyning as CEO and MD on 31 May 2018. Additionally, the Group welcomed new Board appointments with the addition of Claire Poll and Susan Thomas on 11 December 2017; this was followed by the appointment of Ms. Thomas as Chairperson on 9 May 2018.

Material Business Risks

The Group has identified the below specific risks which could impact upon its prospects:

Competition in key markets: The Group has worked diligently on its PCM-based products to ensure that market competition is well understood and that the Group's product portfolio adequately responds to these competitors. This response includes:

- Effective pricing strategies and product innovation;
- Analytical tools that provide an objective means of demonstrating the value of the Group's products over competitive products;
- Identification of market gaps where current commercial technologies are not effective; and
- Protection of Alexium's position in the market place by protecting intellectual property.

Sufficient capital for achieving profitability: The Group monitors and manages its resources to ensure there is sufficient capital for achieving profitability. Based on the Group's revenue forecasts and budget, the Board is confident that the Company is sufficiently capitalised. Periodic reviews are conducted to evaluate this on an ongoing basis.

Commercial risks due to market dynamics: Beyond threats from competitors, the Group identifies changes in the markets themselves as potential risks, and they are working to mitigate these risks through diversification of its product portfolio, customer driven product innovation, and building a broader customer base.

Maintaining strong intellectual property position: Product innovation is key to the Group's business model, thus maintaining a strong intellectual property position is critical. To ensure this, the Group is attentive to developing next-generation products that are not only well-differentiated in the market but are also inventive and meet market needs. Maintaining a well-educated and highly experienced technical staff will continue to be a focus for the Group.

Critical roles of key staff members: Due to the Group's staff count, an inevitable position is to have key staff members who play critical roles for the Group. To mitigate this risk, these key staff members are competitively incentivised. The Company has a development program to ensure succession.

Likely Developments

During the reporting period, the Group continued to capitalise on the work and developments over the past several years which have positioned Alexium well in terms of its three cornerstone initiatives.

In FY2019, Alexium is committed to:

- expansion of Alexicool products in PCM markets for bedding;
- application of flame retardant nylon cotton blends for military uniforms;
- commercialisation of Alexiflam NF;
- further growth of Alexium's technology;
- ensuring a financially strong and stable business through detailed planning, responsible management and transparency of strategy and outcomes; and
- significant growth of the Group's revenue with reinvigorated sales teams.

The Group's business strategies to achieve the above goals include:

- strengthening and maintaining key relationships supporting the Group's cornerstone initiatives;

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

- applying a disciplined and conservative approach to expenditure relative to sales growth;
- focusing on three cornerstone initiatives to produce near term revenue and contribute to growth; and
- leveraging the success of Alexicool products with sophisticated marketing strategies for increased market adoption.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by \$8,534,382 (from \$45,833,450 to \$54,367,832) as a result of a share capital issued totalling \$10,106,575 less \$468,358 in issuance costs, options converted to shares of \$338,244, shares issued in lieu of salary and services of \$52,728 and negative foreign currency translation impact of \$1,494,807. Further details can be found in the Consolidated Statement of Changes in Equity and Note 16 provided in the financial report below.

The Group refinanced its \$5m credit facility with a \$10m convertible note, extending the maturity to three years and securing additional funds to support working capital. The group also raised \$10.1m to provide sufficient capital to fund growth efforts in the military and bedding markets through the issuance of 34.3m shares via institutional placement and 4.7m shares via share purchase plan.

Dr Robert Brookins was appointed as interim CEO during the period (see "Events Since the End of the Financial Period" for further details related to Dr Brookins' appointment) and Susan Thomas was appointed as Non-Executive Chair.

The Company recently announced a change to Alexium's presentation currency from the Australian Dollar to the US Dollar. This financial report, the comparative period within, and future financial reports, will be presented in US Dollars.

EVENTS SINCE THE END OF THE FINANCIAL PERIOD

Other than the items listed below, there has not arisen any item, transaction or event of a material and unusual nature ; which in the opinion of the Directors of the Company, is likely to significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group, in future financial years.

- Dr Brookins was appointed as CEO and Managing Director as of 17 July 2018.

ENVIRONMENTAL REGULATIONS

The Group's operations are currently located solely in the United States, and as such 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 promulgated under these Acts, and any other federal, state or local laws or regulations governing environmental matters. We believe that we are in compliance with these laws and that future compliance will not materially affect our earnings or competitive position.

A key focus of the Group's product portfolio is the environmentally friendly nature of its products. With this, the Group can ensure that the environmental impact by its customers products are minimal and acceptable. Additionally, the Group's manufacturing partners are selected in part based on their adherence to established environmental standards as well as compliance with manufacturing standards such as ISO 9001.

For the period ended 30 June 2018, the Board is not aware of any breach of applicable environmental regulations by the Company.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

INFORMATION ON DIRECTORS

The names of the Directors holding office during the period ended 30 June 2018 are set out below, together with details of Directors' experience, qualifications, special responsibilities and other listed company directorships during the past three financial years.

Ms Susan Thomas

Ms Thomas has been an independent Non-Executive Director of the Company since 11 December 2017. She was appointed Chair of the Board of Directors on 9 May 2018.

Ms Thomas is a member of the Remuneration Committee and the Audit and Risk Committee.

Experience:

Ms Susan Thomas has had a distinguished career in law, corporate finance and IT.

Ms Thomas began her career as a corporate lawyer with Freehill, Hollingdale & Page in Sydney. During the 1990s, Ms Thomas established and grew FlexiPlan Australia, a successful investment administration platform sold later to MLC. Sourcing strategic partners, growing administered funds to \$1.7billion, as well as overseeing over 140 staff, Ms Thomas' achievements saw her acknowledged as an industry leader by the financial planning community.

Ms Thomas is also a Senior Executive Coach at Foresight Global Coaching, working with c-suite executives.

Qualifications: LLB B.Com.

Other listed directorships during the past 3 financial years:

Company	Commenced	Ceased
Temple and Webster Limited	February 2016	Current
Fitzroy River Holdings Limited	November 2012	Current
Royalco Resources Limited	March 2017	Current

Residence:

Ms Thomas is an Australian resident and resides in Perth, Western Australia

Brigadier General Stephen Cheney

General Cheney has been an independent Non-Executive Director of the Company since 15 April 2015. He was appointed Deputy Chair of the Board of Directors on 11 April 2018.

General Cheney is the Chair of the Remuneration Committee.

Experience:

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. General Cheney sat on Secretary of State John Kerry's Foreign Affairs Policy Board and is CEO of the Washington D.C. based policy group, American Security Project.

Qualifications: USMC (ret)

Other listed directorships during the past 3 financial years: N/A

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Residence: Washington DC, USA

Mr Craig Metz

Mr Metz has been an independent Non-Executive Director of the Company since 1 December 2014.

Mr Metz is the Chair of the Audit and Risk Committee.

Experience:

Mr. Metz is a Partner in the Washington, DC Office of Nelson Mullins Riley and Scarborough LLP, an *AM LAW 100* Firm. He has more than 30 years of experience in Federal Legislative and Regulatory Affairs, with a background in Defense and Information Technology, as well as in the representation of a variety of corporate clients.

Mr. Metz served as the Chief of Staff to the Late Congressman Floyd Spence during his six-year Chairmanship of the United States House of Representatives Armed Services Committee and he was a Counsel to the United States Senate Labor and Human Resources Committee. He has also been appointed to positions in the Executive Branch of the Federal Government, including, serving in the Senior Executive Service.

Prior to entering private practice, Mr. Metz represented the Federal Government Relations interests of the EMC Corporation, which was acquired by Dell in 2016, and is now Dell EMC. A native of South Carolina, Mr. Metz is a member of the Bars of South Carolina and the District of Columbia. He is the recipient of the Order of the Palmetto, the highest civilian honor of the State of South Carolina, as well as a number of other recognitions from the South Carolina Military Department. Mr. Metz is a member of the Board of Directors of the South Carolina Business Council, as well as a member of the National Defense Industrial Association, the Washington International Trade Association, and the National Association of Corporate Directors.

Qualifications: J.D. (Juris Doctor)

Other listed directorships during the past 3 financial years: N/A

Residence: Washington DC, USA

Ms Claire Poll

Ms Poll has been an independent Non-Executive Director of the Company since 11 December 2017.

Ms Poll is a member of the Remuneration Committee.

Experience:

Ms Claire Poll is an experienced corporate director having led, over the past 20 years, strategy and corporate development for start-up technology companies through to large multi-billion dollar companies in Australia, the United Kingdom (UK) and more recently the United States (US).

Ms Poll, who originally qualified as a solicitor in Western Australia, has worked as a non-executive director, corporate executive and general counsel in private and public listed companies in the US, UK and Australia in the areas of venture capital, mobile satellite communications, information technology and biopharmaceuticals.

Ms Poll started her corporate career with Burns Philp & Company Limited, the diversified global company involved in food manufacturing, shipping and general trading. Ms Poll is a founding executive of Nasdaq and AIM listed Verona Pharma plc (AIM: VRP; Nasdaq: VRNA) and a non-executive director of Landgate.

Qualifications: BA B.JURIS. LLB ASIA

Ms Poll received a Bachelor of Law from the University of Western Australia and holds a post graduate diploma in Applied Corporate Finance, M&A and Advanced Industrial Equity Analysis.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Other listed directorships in the past 3 financial years:

Company	Commenced	Ceased
Verona Pharma plc	September 2006	September 2016

Residence: Ms Poll is an Australian resident and resides in Perth, Western Australia.

Fmr Congresswoman Karen Thurman

Fmr Congresswoman Karen Thurman has been an independent Non-Executive Director of the Company since 2 March 2017.

Ms Thurman is a member of the Audit and Risk Committee.

Experience:

Ms Thurman was elected to the US House of Representatives in 1992 and consecutively re-elected four additional terms. Ms Thurman is an expert on healthcare, veteran's affairs, and tax reform. Ms Thurman 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. Ms Thurman continues to advocate on issues in D.C. and is well regarded on both sides of the House.

Qualifications: BA, Post Baccalaureate

Other listed directorships in the past 3 financial years: N/A

Residence: Washington DC, USA

Dr Robert Brookins

Dr Brookins was appointed as the Company's Interim Chief Executive Officer on May 31, 2018 and was later appointed as the Chief Executive Officer and Managing Director on July 13, 2018.

Experience:

Dr. Brookins has more than 15 years of experience in organic synthesis and materials chemistry. He received his Ph.D. from the University of Florida in the areas of synthesis and characterisation of conjugated poly-electrolytes and polymers with an emphasis on developing new polymerisation methods. Upon completion of his Ph.D., he worked at the US Air Force Research Laboratory at Tyndall AFB, FL where he developed decontamination methods for chemical and biological threats and developed novel synthetic routes for reactive and functional surfaces. In 2010, Dr. Brookins joined Alexium where he and his team pioneered new classes of flame retardants for key textile markets. Additionally, his research focuses on phase change materials, particularly novel application methods and analytical tools.

Dr. Brookins has been instrumental in the research and development of the Company's innovative technologies. Dr. Brookins led the development and commercialisation of Alexium's phase change material (PCM) platform technologies and the Alexicool® product line, which is the foundation of the Company's recent success in sales to the bedding and top-of-bed markets.

Dr. Brookins has, during his 8 years with the Company, been involved in multiple facets of the business, including working with customers on product design and marketing, analysing markets to assess opportunities, and planning for logistics and supply-chain management. In addition, Dr. Brookins co-invented Alexium's flame retardant (FR) technologies for military uniforms and formaldehyde-free, flame retardant products for cotton-based materials. Dr. Brookins has been immersed in the operations and strategy of the business and has gained significant experience working within the senior leadership team of the Company.

Qualifications: Ph.D., M.A.E. B.A. B.Sc

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Other listed directorships in the past 3 financial years: N/A

Residence: Greer, South Carolina, USA

Other Directors in office during the reporting period

Director	Office held	Commenced	Ceased
Mr Gavin Rezos	Non-Executive Chair	2010	9 May 2018
Dr Dirk Van Hyning	CEO & MD	13 November 2017	31 May 2018
Mr Nicholas Clark	CEO & MD	18 March 2013	1 August 2017

Mr Gavin Rezos

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.

Dr Dirk Van Hyning

Before joining Alexium, Dr. Van Hyning was with Milliken Research Corporation, a global innovation company, where he began as a Research Engineer in 1999 and earned subsequent promotions to Project Management Leader and Senior Development Engineer-Military and Protective Businesses. Dr. Van Hyning received his Ph.D. and M.S. in Chemical Engineering from the University of Illinois at Urbana-Champaign and his B.S. in Chemical Engineering from North Carolina State University. Dr Van Hyning has received several honours and awards, including the Hans Kuhn Award for Outstanding Technology Commercialisation and holds four patents.

Mr Nicholas Clark

Mr Clark was appointed to the board on 18 March 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.

COMPANY SECRETARY

Ms Maja McGuire was appointed Company Secretary on 27 February 2018, replacing Mr Kevin Kye. Mrs McGuire combines her company secretarial duties with her role as General Counsel and brings to the role 10 years' experience in the provision of corporate and compliance advice, including working with listed companies as general counsel, company secretary and in top tier private practice. She holds a BComm and LLB from the University of Western Australia.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board committee held during the reporting period ended 30 June 2018, and the number of meetings attended and number of meetings applicable based on appointment date for each Director were:

Directors	Board of Directors	Audit & Risk Committee	Remuneration Committee
Ms Susan Thomas	7/7	3/3	0/0
Brigadier General Stephen Cheney	10/10	4/4	2/2
Ms Claire Poll	7/7	2/2	0/0
Mr Craig Metz	10/10	5/5	2/2
Ms Karen Thurman	10/10	5/5	2/2
Mr Gavin Rezos	7/7	n/a	n/a
Dr Dirk Van Hying	4/5	n/a	n/a
Mr Nicholas Clark	1/1	n/a	n/a

The Board and committees meet regularly on an informal basis in addition to the above meetings.

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

REMUNERATION REPORT - AUDITED

The remuneration report is set out under the following main headings:

- A. Key Management Personnel
- B. Remuneration Policy
- C. Remuneration Governance
- D. Details of Remuneration
- E. Service Agreements
- F. Share-based Compensation
- G. Additional Disclosures Relating to Key Management Personnel
- H. Loans to Key Management Personnel

The information provided in this Remuneration Report has been audited as required under section 308(3C) of the *Corporations Act (Cth)*.

A. Key Management Personnel

For the purposes of this report personnel deemed Key Management Personnel ("KMP") at any time during the reporting period ended 30 June 2018 are:

Name	Position
Ms Susan Thomas	Non-Executive Chair – appointed 9 May 2018 Non-Executive Director – appointed 11 December 2017
Brigadier General Stephen Cheney	Non-Executive Director
Mr Craig Metz	Non-Executive Director
Ms Karen Thurman	Non-Executive Director
Ms Claire Poll	Non-Executive Director – appointed 11 December 2017
Dr Robert Brookins	Interim Chief Executive Officer – appointed CEO and MD on 13 July 2018
Mr Aaron Krech	Chief Financial Officer
Dr Dirk Van Hyning	Former Chief Executive Officer and Managing Director – resigned 31 May 2018
Mr Gavin Rezos	Former Non-Executive Chairman – resigned 9 May 2018
Mr Nicholas Clark	Former Executive Director – resigned 1 August 2017

B. Remuneration Policy

The objective of the Company's remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered and set to attract and retain suitably qualified and experienced candidates. The Company is in the process of conducting a review of the remuneration framework with a goal of ensuring that remuneration is aligned with performance and the creation of value for shareholders. The Group's remuneration framework aims to ensure that:

- rewards reflect the competitive global market in which the Group operates;
- incentive remuneration is linked to KPI's, which are designed to encourage behaviours that will lead to short and medium to long-term;
- rewards to executives are linked to the creation of value to shareholders;
- executives are rewarded for both financial and non-financial performance; and
- remuneration arrangements ensure equity between executives and facilitate the deployment of human resources.

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

The Board seeks independent advice on remuneration policies and practices. In accordance with best practice corporate governance, the structure of Non-Executive and Executive remuneration is separate and distinct. Remuneration Committee responsibilities are carried out by General Stephen Cheney, Ms Claire Poll and Ms Susan Thomas.

Non-Executive Director Remuneration Policy

Fees and payments to the Non-Executive Directors reflect the demands which are made on and the responsibilities of the Directors. The Non-Executive Director's fees and payments are reviewed by the remuneration committee to ensure they are appropriate and in line with the market. Non-Executive Directors receive a fixed fee for service.

The Non-Executive Directors' fees are determined within an aggregate director's' fee pool limit, which is periodically recommended for approval by shareholders. The maximum currently stands at USD375,000 per annum and was approved by shareholders at the 2016 Annual General Meeting.

No retirement benefits are provided other than compulsory superannuation.

Executive Remuneration Policy

The Company's Executive Director and other Executives remuneration packages contain the following key elements:

- Primary benefits – base salary, short-term incentives, superannuation or pension contributions and in the case of US based executives a health benefit plan.
- Equity – performance rights and shares under the Company's Performance Rights Plan and Incentive Share Plan (as approved by shareholders at the 2016 Annual General Meeting).

The combination of these components comprises the Executive Directors' and Executive's total remuneration.

External remuneration information provides benchmark information to ensure remuneration is set to reflect the market for a comparable role. Base fees are reviewed annually to ensure the level is competitive with the market. There is no guaranteed salary increase included.

C. Remuneration Governance

The Remuneration Committee is a committee of the Board. It is primarily responsible for:

- reviewing and approving the executive remuneration policy to enable the Company to attract and retain executives and Directors who will create value for shareholders;
- ensuring that the executive remuneration policy demonstrates a clear relationship between key executive performance and remuneration;
- recommending to the Board the remuneration of executive and non-executive Directors;
- fairly and responsibly rewarding executives having regard to the performance of the Group, the performance of the executive and the prevailing remuneration expectations in the market;
- reviewing the Company's recruitment, retention and termination policies and procedures for senior management;
- reviewing and approving the remuneration of direct reports to the Chief Executive Officer/Managing Director, and as appropriate other senior executives; and
- reviewing and approving any equity-based plans and other incentive schemes.

The Corporate Governance Statement provides further information on this Committee.

DIRECTORS' REPORT- REMUNERATION REPORT
ALEXIUM INTERNATIONAL GROUP LIMITED

D. Details of Remuneration

Details of the remuneration of the KMP of the Group is set out below:

2018	Short-term benefits			Other Benefits				
	Salary and fees	Medical benefits	Other	Post employment super-annuation	Share-based payments Performance rights	Short Term Incentive Plan	Long Term Incentive Plan	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Non-Executive Directors</u>								
Ms Susan Thomas	33,599	-	60,301 ⁽⁵⁾	-	-	-	-	93,900
Mr C Metz	57,259	-	-	-	-	-	-	57,259
Brig. Gen. S Cheney	53,718	-	-	-	-	-	-	53,718
Ms K Thurman	54,228	-	-	-	-	-	-	54,228
Ms Claire Poll	27,542	-	-	-	-	-	-	27,542
Mr G Rezos ⁽¹⁾	135,726	11,436	-	-	-	-	-	147,162
Total Non-Executive Directors	362,072	11,436	60,301	-	-	-	-	433,809
<u>Executive Directors</u>								
Mr N Clark ⁽²⁾	15,000	2,403	-	-	-	-	-	17,403
Total Executive Directors	15,000	2,403	-	-	-	-	-	17,403
Total Directors	377,072	13,839	60,301	-	-	-	-	451,212
<u>Executives</u>								
Dr R Brookins	186,672	9,064	12,388 ⁽⁴⁾	-	12,799	-	-	220,923
Mr A Krech	184,167	4,630	1,676 ⁽⁴⁾	-	7,813	-	-	198,286
Dr D Van Hyning ⁽³⁾	278,771	14,918	23,333 ⁽³⁾	-	-	-	-	317,022
Total Executives	649,610	28,612	37,397	-	20,612	-	-	736,231
Total Directors and Executives	1,026,682	42,451	97,698	-	20,612	-	-	1,187,443

- (1) Mr Rezos served as Executive Chair in the period ended 30 June 2017 and transitioned to Non-Executive Chair on 1 July 2017.
(2) Resigned 1 August 2017.
(3) During the year Dr Van Hyning was a director from 13 November 2017 until resignation on 31 May 2018. He is to be paid seven months' severance which will cease on 31 December 2018.
(4) Paid leave benefit earned in the period ended 30 June 2018.
(5) Executive remuneration as permitted under section 13.9 of the Constitution was payable to Susan Thomas for services performed in addition to her role as Non-Executive Chair on behalf of the Company. This work was required during this transition of the Company in relation to business plans, review of the Company's skills matrix, and development of new financial models. These fees are in line with market comparable rates and due to the short-term nature of this work, the Board were of the view that it was more appropriate to manage through additional fees rather than create an Executive Chair position.

DIRECTORS' REPORT- REMUNERATION REPORT
ALEXIUM INTERNATIONAL GROUP LIMITED

2017	Short-term benefits			Other Benefits				
	Salary and fees	Medical benefits	Other	Post employment super-annuation	Share-based payments Shares	Short Term Incentive Plan ⁽⁷⁾	Long Term Incentive Plan ⁽⁸⁾	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Non-Executive Directors</u>								
Mr G Rezos ⁽¹⁾	300,000	10,757	-	-	131,167 ⁽⁴⁾	Waived	Nil	441,924
Mr C Metz	61,000	-	-	-	-	-	-	61,000
Brig. Gen. S Cheney	56,000	-	-	-	-	-	-	56,000
Ms K Thurman	20,333	-	-	-	-	-	-	20,333
Mr C Smith Gander ⁽³⁾	37,907 ⁽³⁾	-	-	3,588 ⁽³⁾	-	-	-	41,495
Total Non-Executive Directors	475,240	10,757	-	3,588	131,167	-	-	620,752
<u>Executive Directors</u>								
Mr N Clark ⁽²⁾	447,917	14,658	144,100 ⁽⁶⁾	-	197,987 ⁽⁵⁾	Waived	Nil	804,662
Total Executive Directors	447,917	14,658	144,100	-	197,987	-	-	804,662
Total Directors	923,157	25,415	144,100	3,588	329,154	-	-	1,425,414
<u>Executives</u>								
Dr D V Hynning	207,500	13,968	7,843 ⁽⁹⁾	-	-	-	-	229,311
Mr R Brookins	153,733	8,412	5,512 ⁽⁹⁾	-	-	-	-	167,657
Mr A Krech	150,000	4,674	8,402 ⁽⁹⁾	-	-	-	-	163,076
Total Executives	511,233	27,054	21,757	-	-	-	-	560,044
Total Directors and Executives	1,434,390	52,469	165,857	3,588	329,154	-	-	1,985,458

⁽¹⁾ Mr Rezos served as Executive Chair in the 2017 financial year and transitioned to Non-Executive Chair 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 and were subsequently forfeited

⁽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- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

E. Service Agreements

On appointment, the Non-Executive Directors enter into an agreement with the Company in the form of a letter of appointment. The letter outlines the Board's policies and terms, including remuneration relevant to the office of director.

The Company has also entered into service agreements with other executives as noted below, which contain standard terms and conditions for agreements of this nature, including confidentiality restraint on competition and intellectual property provisions. These agreements may be terminated by notice by either party, or earlier in the event of certain breaches of the terms and conditions. Specific terms and conditions of the service agreements of the Key Management Personnel at the end of the financial period are summarised below:

Dr Robert Brookins, Interim Chief Executive Office

- 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.
- Salary: A base salary of US\$286,000 year, to be reviewed annually.
- Incentive: Potential short-term and long-term incentive opportunities as determined by the Board of Directors.
- 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.

Aaron Krech, Chief Financial Officer

- Term: Mr Krech's service commenced on 8 December 2014.
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A base salary of US\$190,000 per year, to be reviewed annually.
- Incentive: Potential short-term and long-term incentive opportunities as determined by the Board of Directors.
- Termination: Mr Krech and the Company may, at their sole discretion, terminate the Service Agreement without cause.

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

F. Performance Rights

The Directors and other KMPs of the Company were issued or are entitled to the following share-based remuneration during the reporting period for the year:

(1) Performance Rights

113,887 Performance Rights were granted (2017: Nil) with a value of \$113,887 (2017: \$Nil); 99,284 performance rights with a value of \$93,275 were forfeited during the period due to service commitments not being met

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	2018 US\$			2017 US\$		
	Granted during the year	Value of performance rights exercised in year	Forfeited in year	Granted during the year	Value of performance rights exercised in year	Forfeited in year
<u>Non-Executive Directors</u>						
Ms S Thomas	-	-	-	-	-	-
Mr Craig Metz	-	-	-	-	-	-
Brig. Gen. Stephen Cheney	-	-	-	-	-	-
Ms. K Thurman	-	-	-	-	-	-
Ms C Poll	-	-	-	-	-	-
Mr G Rezos	-	-	-	-	-	(117,019)
Mr C Smith-Gander	-	-	-	-	-	-
<u>Total Non-Executive Directors</u>	-	-	-	-	-	(117,019)
<u>Non-Executive Directors</u>						
Mr N Clark	-	-	-	-	-	(187,231)
<u>Total Executive Directors</u>	-	-	-	-	-	(187,231)
<u>Total Directors</u>	-	-	-	-	-	(304,250)
<u>Executives</u>						
Dr R Brookins	12,799 ⁽¹⁾	-	-	-	-	-
Mr A Krech	7,813 ⁽¹⁾	-	-	-	-	-
Dr D Van Hyning	93,275 ⁽²⁾	-	(93,275)	-	-	-
TOTAL	113,887	-	(93,275)	-	-	(304,250)

(1) Performance rights issued have a performance period ending 31 December 2018.

(2) 99,284 performance rights (\$93,275) forfeited during the period due to service term requirements not being met.

The number of performance rights in the Company held during the financial year by each KMP, including their personally related parties, is set out below. 113,887 performance rights were granted to Executives during the reporting year as compensation (2017: Nil).

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

2018- Number of Performance Rights

Name	Balance at start of year Performance Rights	Granted during year as remuneration	Vested and Converted to Shares during year	Forfeited during year Performance Rights	Balance at end of year Performance Rights
	Number	Number	Number	Number	Number
Non-Executive Directors					
Ms S Thomas	-	-	-	-	-
Mr C Metz	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-
Ms K Thurman	-	-	-	-	-
Ms C Poll	-	-	-	-	-
Mr G Rezos	-	-	-	-	-
Total Non-Executive Directors	-	-	-	-	-
Executive Directors					
Mr N Clark	-	-	-	-	-
Total Executive Directors	-	-	-	-	-
Total Directors	-	-	-	-	-
Executives					
Dr R Brookins	-	41,164 ⁽¹⁾	-	-	-
Mr A Krech	-	25,128 ⁽¹⁾	-	-	-
Dr D Van Hying	-	99,284 ⁽²⁾	-	99,284	-
Total Executives	-	165,576	-	99,284	-
Total Directors and Executives	-	165,576	-	99,284	-

(1) Performance rights issued have a performance period ending 31 December 2018.

(2) 300,000 (99,284 probability weighted at the date of issue) performance rights (\$93,275) forfeited during the period due to service term requirements not being met.

Performance rights details

Name	Number of performance rights granted during 2018	Grant date	Vesting date	Expiry date	Fair value per right at grant date AUD\$
Executives					
Dr R Brookins	146,000	16/11/2017	31/12/2018	16/11/2020	0.42
Mr A Krech	155,000	16/11/2017	31/12/2018	16/11/2020	0.42
Dr D Van Hying	300,000	16/11/2017	31/12/2018	16/11/2020	0.42

The performance rights had vesting criteria based on the following performance and market conditions:

- Share price appreciation
- Top line revenue increase over CY2017
- Bottom line EBITDA improvement over CY2017
- Returns as a percentage of items sold
- New products developed in CY2018
- Partnerships formed in CY2018 (license, distributorship, etc.)

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

- Percentage of new products launched on schedule
- Number of new products developed
- Number of new patent applications filed
- Adherence to budget
- Cash flow management
- United States quotation

The company is in the process of evaluating key performance indicators for key management personnel to reallocate rights to KMP with the goal to reallocate performance rights incentives that reflect the strategic direction of the Group.

G. Share-based Compensation

The Directors and other KMPs of the Company were issued or are entitled to the following share-based remuneration during the reporting period:

(1) Options

Nil Options (2017: Nil) with a value of \$Nil (2017: \$Nil).

(2) Shares

Nil shares (2017: 716,977) with a value of \$Nil in lieu of salary (2017: \$329,154).

Options

No options were granted to directors during the 2018 or 2017 financial years. The movement in the number of options held by the Key Management Personnel, including their personally related parties, are set out below:

2018

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
<u>Non-Executive Directors</u>						
Ms S Thomas	-	-	-	-	-	-
Mr C Metz	750,000	-	-	-	750,000	750,000
Brig. Gen. Stephen Cheney	750,000	-	-	-	750,000	750,000
Ms. K Thurman	-	-	-	-	-	-
Ms Claire Poll	-	-	-	-	-	-
Mr G Rezos	-	-	-	-	-	-
Total Non-Executive Directors	1,500,000	-	-	-	1,500,000	1,500,000
Executive Directors						
Mr N Clark	-	-	-	-	-	-
Total Executive Directors	-	-	-	-	-	-
Total Directors	1,500,000	-	-	-	1,500,000	1,500,000
<u>Executives</u>						
Dr R Brookins	-	-	-	-	-	-
Mr A Krech	-	-	-	-	-	-
Dr D Van Hying	-	-	-	-	-	-
Total Executives	-	-	-	-	-	-
Total Directors and Executives	1,500,000	-	-	-	1,500,000	1,500,000

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

Shares

The value of shares issued or agreed to be issued during the year was \$Nil (2017: \$329,154) 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 the number of shares held by the Key Management Personnel, including their personally related parties, are set out below:

2018

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
<u>Non-Executive Directors</u>						
Ms S Thomas	-	-	-	-	285,715 ⁽¹⁾	285,715
Mr C Metz	-	-	-	-	28,572 ⁽¹⁾	28,572
Brig. Gen. Stephen Cheney	43,000	-	-	-	28,572 ⁽¹⁾	71,572
Ms. K Thurman	-	-	-	-	14,286 ⁽¹⁾	14,286
Ms Claire Poll	-	-	-	-	28,572 ⁽¹⁾	28,572
Mr G Rezos	26,100,000	-	-	-	585,715 ⁽¹⁾	26,685,715 ⁽²⁾
Total Non-Executive Directors	26,143,000	-	-	-	971,432	27,114,432
<u>Executive Directors</u>						
Mr N Clark	9,060,070	-	-	-	(5,880,070)	3,180,000 ⁽³⁾
Total Executive Directors	9,060,070	-	-	-	(5,880,070)	3,180,000
Total Directors	35,203,070	-	-	-	(4,908,638)	30,294,432
<u>Executives</u>						
Dr R Brookins	2,774,500	-	-	-	387,740 ⁽⁴⁾	3,162,240
Mr A Krech	80,000	-	-	-	-	80,000
Dr D Van Hying	790,000	-	-	-	14,286 ⁽¹⁾	804,286 ⁽²⁾
Total Executives	3,644,500	-	-	-	402,026	4,046,526
Total Directors and Executives	38,847,570	-	-	-	(4,506,612)	34,340,958

(1) Director's were allotted shares in December 2017 at AU\$0.35 per share. This placement to Directors was approved by shareholders in May 2018.

(2) As at resignation date.

(3) As at 30 June 2018.

(4) 581,240 shares were transferred to Dr Brookins and related parties and 193,500 shares were sold on market during the reporting period.

DIRECTORS' REPORT- REMUNERATION REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

H. Additional Disclosures Relating to Key Management Personnel

The interests of the Directors and other KMP of the Group in the shares and options of Alexium International Group Limited is set out below.

<i>Name</i>	<i>Number of ordinary shares</i>	<i>Number of performance rights</i>	<i>Number of options over ordinary shares</i>
Ms Susan Thomas	285,715	-	-
Mr Craig Metz	28,572	-	750,000
Brig. Gen. Stephen Cheney	71,572	-	750,000
Ms Karen Thurman	14,286	-	-
Ms Claire Poll	28,575	-	-
Dr Robert Brookins	3,162,240	146,000	-
Mr Aaron Krech	80,000	155,000	-

I. Loans to Key Management Personnel

No loans have currently been provided to KMP of the Group.

THIS IS THE END OF THE AUDITED REMUNERATION REPORT

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

SHARES UNDER OPTION/WARRANT

As at the date of this report there were 2,400,000 unissued ordinary shares under option (2017:13,491,626). 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>
1 October 2015	30 September 2020	\$0.75	1,500,000
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
			<u>2,400,000</u>

During the reporting period, 4,255,319 warrants were agreed to be issued but have not yet been issued to GPB Debt Holdings II, LLC. These warrants have an exercise price of the lower of AU\$0.35 or any price at which Alexium issues securities to the public. These warrants have an expiry date of 28 March 2023. GPB has the option for a cashless exercise.

No option/warrant holder has any right under the options/warrants to participate in any other share issue of the Company or any other entity. The options/warrants are exercisable at any time after vesting and on or before the expiry date.

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

The group has 1,324,000 performance rights on issue (2017: Nil). These rights have been allocated to staff based on the rules set forth in the performance rights plan.

INSURANCE OF OFFICERS

During the reporting period, the Group paid a premium in respect of a contract insuring the Directors and Officers of the Company against a liability incurred as a Director or Officer to the extent permitted by the *Corporations Act 2001 (Cth)*. Due to a confidentiality clause in the policy, the amount of the premium has not been disclosed.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a willful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001 (Cth)* 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 (Cth)*.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

ROUNDING OFF AMOUNTS

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

INDEMNITY OF AUDITORS

The Company 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 the Company's breach of their agreement. The indemnity stipulates that Alexium will meet the full amount of any such liabilities including a reasonable amount of legal costs.

NON-AUDIT SERVICES

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001 (Cth)* is attached.

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



Susan Thomas
Chair

31 August 2018

AUDITOR'S INDEPENDENCE DECLARATION



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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 2018, 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.

A handwritten signature in black ink that reads "Grant Thornton".

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature in black ink, appearing to be "M J Hillgrove".

M J Hillgrove
Partner – Audit & Assurance

Perth, 31 August 2018

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 2018

ALEXIUM INTERNATIONAL GROUP LIMITED

	Note	Consolidated	
		2018 US\$	2017 US\$
Revenue	3	11,911,816	17,929,361
Cost of sales		<u>(9,556,874)</u>	<u>(17,688,486)</u>
Gross Profit		2,354,942	240,875
Other Income	3	-	159,000
Administrative expenses	4	(3,171,158)	(5,022,655)
Sales and marketing expenses		(1,237,986)	(942,052)
Research and development costs		(724,727)	(1,415,970)
Occupancy expenses		(453,126)	(439,598)
Other expenses		<u>(1,218,141)</u>	<u>(1,134,183)</u>
Loss before finance costs		(4,450,196)	(8,554,583)
Interest expense		(2,297,626)	(449,342)
Gain on debt extinguishment	15	396,591	-
Gain/ (Loss) on embedded derivative	15	2,369,993	(142,073)
Interest received	3	<u>20,119</u>	<u>9,075</u>
Total finance costs		489,077	(582,340)
Loss before tax		<u>(3,961,119)</u>	<u>(9,136,923)</u>
Tax expense	7	-	-
Loss for the year after tax		<u>(3,961,119)</u>	<u>(9,136,923)</u>
Other comprehensive income- Exchange differences on translation of foreign operations which will not be reclassified subsequently to profit or loss		<u>694,044</u>	<u>(82,195)</u>
Total comprehensive loss for the year		<u>(3,267,075)</u>	<u>(9,219,118)</u>
Loss for the year attributable to members of the group		<u>(3,961,119)</u>	<u>(9,136,923)</u>
Total comprehensive loss for the year attributable to members of the group		<u>(3,267,075)</u>	<u>(9,219,118)</u>
Basic loss per share (cents)	8	(1.22)	(3.03)
Diluted loss per share (cents)	8	(1.22)	(3.03)

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 2018

ALEXIUM INTERNATIONAL GROUP LIMITED

		Consolidated		
		2018	2017	2016
		US\$	Restated to US\$	Restated to US\$
	Note			
Current Assets				
Cash and cash equivalents	20(a)	10,641,763	2,620,759	8,347,728
Trade and other receivables	9	513,800	1,097,489	142,690
Inventories	10	1,516,548	1,607,164	1,232,727
Other current assets		69,876	77,727	67,616
Total Current Assets		<u>12,741,987</u>	<u>5,403,139</u>	<u>9,790,761</u>
Non-Current Assets				
Other financial assets		20,788	27,310	27,599
Property, plant and equipment	11	1,955,519	1,876,857	607,732
Intangible assets	12	761,150	110,102	110,457
Total Non-Current Assets		<u>2,737,457</u>	<u>2,014,269</u>	<u>745,788</u>
Total Assets		<u>15,479,444</u>	<u>7,417,408</u>	<u>10,536,549</u>
Current Liabilities				
Trade and other payables	13	438,793	1,406,563	2,096,257
Deferred income	14	-	24,947	13,665
Borrowings	15	243,667	4,499,674	28,667
Other liabilities		-	202,735	-
Total Current Liabilities		<u>682,460</u>	<u>6,133,919</u>	<u>2,138,589</u>
Non-Current Liabilities				
Borrowings	15	7,180,965	302,888	13,802
Derivative liability	15	630,983	811,951	-
Total Non-Current Liabilities		<u>7,811,948</u>	<u>1,114,839</u>	<u>13,802</u>
Total Liabilities		<u>8,494,408</u>	<u>7,248,758</u>	<u>2,152,391</u>
Net Assets / Liabilities		<u>6,985,036</u>	<u>168,650</u>	<u>8,384,158</u>
Equity				
Contributed equity	16	54,367,832	45,833,450	43,657,181
Reserves	18	6,423,821	4,188,853	5,443,707
Accumulated losses	19	(53,806,617)	(49,853,653)	(40,716,730)
Total Equity		<u>6,985,036</u>	<u>168,650</u>	<u>8,384,158</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 2018

ALEXIUM INTERNATIONAL GROUP LIMITED

	Contributed equity	Options Reserve	Performance Rights Reserve	Foreign Currency Reserves	Accumulated losses	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 July 2017	45,833,450	5,856,738	619,640	(2,287,525)	(49,853,653)	168,650
Loss for the year	-	-	-	-	(3,961,119)	(3,961,119)
Foreign currency translation	(1,494,807)	(221,770)	(21,489)	2,423,955	8,155	694,044
Total comprehensive loss for the year	(1,494,807)	(221,770)	(21,489)	2,423,955	(3,952,964)	(3,267,075)
Transactions with owners in their capacity as owners:						
Issued capital	10,106,575	-	-	-	-	10,106,575
Capital raising cost	(468,358)	-	-	-	-	(468,358)
Options exercised	338,244	-	-	-	-	338,244
Share-based payment in lieu of salary	52,728	-	-	-	-	52,728
Performance rights	-	-	54,272	-	-	54,272
Balance at 30 June 2018	54,367,832	5,634,968	652,423	136,430	(53,806,617)	6,985,036

	Contributed equity	Options Reserve	Performance Rights Reserve	Foreign Currency Reserves	Accumulated losses	Total
	US\$	US\$	US\$	US\$	US\$	US\$
Balance at 1 July 2016	43,657,181	5,590,802	601,036	(748,131)	(40,716,730)	8,384,158
Loss for the year	-	-	-	-	(9,136,923)	(9,136,923)
Foreign currency translation	1,265,046	173,549	18,604	(1,539,394)	-	(82,195)
Total comprehensive loss for the year	1,265,046	173,549	18,604	(1,539,394)	(9,136,923)	(9,219,118)
Transactions with owners in their capacity as owners:						
Options exercised	509,607	-	-	-	-	509,607
Share-based payment	-	92,387	-	-	-	92,387
Shares issued in lieu of salary	401,616	-	-	-	-	401,616
Balance at 30 June 2017	45,833,450	5,856,738	619,640	(2,287,525)	(49,853,653)	168,650

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 2018

ALEXIUM INTERNATIONAL GROUP LIMITED

	Note	Consolidated	
		2018 US\$	2017 US\$
Cash flow from operating activities			
Receipts from customers and other income		12,437,167	17,060,440
Payments to suppliers and employees		(16,881,341)	(26,568,123)
Interest received	3	20,119	9,075
Interest and other costs of finance paid		(1,231,830)	(386,472)
Goods & services tax received from ATO		97,195	86,156
Net cash flows (used in) operating activities	20(b)	<u>(5,558,690)</u>	<u>(9,798,924)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(41,797)	(1,204,410)
Purchase of other non-current assets		-	(16,227)
Proceeds from disposal of property, plant and equipment		1,500	410
Payments for development costs		(662,653)	-
Net cash flows (used in) investing activities		<u>(702,950)</u>	<u>(1,220,227)</u>
Cash flows provided by financing activities			
Proceeds from borrowings		9,600,000	5,000,000
Transaction cost related to loans and borrowings		(453,979)	(94,450)
Repayment of borrowings		(5,178,869)	(126,411)
Proceeds from exercise of options		360,677	498,993
Proceeds from issue of ordinary shares		10,520,333	-
Transaction costs related to issue of shares		(521,978)	-
Net cash flows provided by financing activities		<u>14,326,184</u>	<u>5,278,132</u>
Net increase / (decrease) in cash and cash equivalents		8,064,544	(5,741,019)
Cash and cash equivalents at beginning of year		2,620,759	8,347,728
Effect of exchange rate changes on cash and cash equivalents		(43,540)	14,050
Cash and cash equivalents at end of year	20(a)	<u>10,641,763</u>	<u>2,620,759</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

1. CORPORATE INFORMATION

The consolidated financial statements of Alexium International Group Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2018 were authorised for issue in accordance with a resolution of the directors on 31 August 2018. 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 United States Dollars.

These financial statements and notes represent a change in presentation currency from the Australian Dollar to the US Dollar. This change aligns the company's financial reporting with the nature of the business operations which primarily occur in the United States. This financial report, the comparative period within, and all future financial reports, will therefore be presented in US 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 (Cth). 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 is United States Dollars to correspond with the primary currency that influences sales price of goods, labour, materials, costs of providing goods for sale, and interest expense paid on the Company's debt.

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 (Cth), however, required financial information for the Company as an individual entity is included in Note 22.

These financial statements and notes represent a change in presentation currency from the Australian Dollar to the US Dollar and as such is considered a change in accounting policy applied retrospectively. This change aligns the company's financial reporting with the nature of the business operations which primarily occur in the United States. This financial report, the comparative period within, and all future financial reports, will therefore be presented in US Dollars.

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

There have been no new and revised Standards and Interpretations issued by the Australia Accounting Standards Board (AASB) adopted by the Group that are relevant to its operations and effective for the current reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

(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:

AASB 9 *Financial Instruments*

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model on credit losses. 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 standard is required to be applied retrospectively to comparative periods in accordance with AASB 108. Subsequent to initial recognition, financial assets and liabilities are measured at:

- Amortised cost
- Fair value through other comprehensive income (FVOCI)
- Fair value through profit or loss (FVPL)

Further, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting

The company has undertaken a detailed assessment of the standard and determined that when this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces AASB 118: Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations. The introduction of AASB 15 is intended to replace existing accounting guidance and introduce a comprehensive revenue recognition model aimed at enhancing comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. 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 Company is in the processes of evaluating which is the most appropriate adoption method, whether the full retrospective or the modified retrospective. Presently, the Company anticipates using the modified retrospective transition method. Under the modified retrospective method, the cumulative impact (if any) will be recognised at the date of initial application (July 1, 2018).

The company has undertaken a detailed assessment of the standard and determined that when this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

While the approach under AASB 15 is significantly different than the existing literature, due to the nature of the Company's business, management has identified no significant differences that will impact the ultimate timing of revenue recognition

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

at the Company. Management recognises that the implementation efforts are still underway, and additionally, that contracts / arrangements could change as the Company enters into new markets and expands its customer base. Management will continue to monitor any changes to ensure the accounting is in line with the context of AASB 15.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. Under the new standard, a lessee is required to: (a) recognise all right of use assets and lease liabilities, with the exception of short-term (under 12 months) and low value leases, on the statement of financial position. The liability is initially measured at the present value of future lease payments for the lease term; (b) recognise depreciation of right of use assets and interest on lease liabilities in profit or loss over the lease term; and (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest portion (which the Group presents in operating activities) in the statement of cash flows.

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 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. As per the Note 26(a), the group has commitments for minimum lease payments totalling \$708,369 over the next five years and expects the impact of the change in accounting standard to approximate that amount.

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 23.

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 consolidated financial statements are presented in United States dollars (\$USD). The functional currency of the parent company is Australian Dollar and the functional currencies of the Company's overseas subsidiaries are the Pound Sterling and the US 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 and exchange differences are recognised in profit or loss.

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. All resulting exchange differences are recognised on other comprehensive income.

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. All resulting exchange differences are recognised on other comprehensive income.

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. All resulting exchange differences are recognised on other comprehensive income.

On disposal of a foreign entity, the cumulative exchange differences are reclassified to profit or loss as part of the gain or loss on sale.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 capitalised at cost. Following initial recognition, the cost model is applied to the class of intangible assets whereby capitalised costs are amortised 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.

Expenditure on the research phase of projects to develop new specialty chemicals is recognised as an expense as incurred.

Costs that are directly attributable to a project's development phase are recognised as intangible assets, provided they meet the following recognition requirements:

- the development costs can be measured reliably
- the project is technically and commercially feasible
- the Group intends to and has sufficient resources to complete the project
- the Group has the ability to use or sell the software; and
- the software will generate probable future economic benefits

Development costs not meeting these criteria for capitalisation are expensed as incurred.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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.

Capitalised development costs, patents, and trademarks with a finite life are amortised as follows:

- Patents and Trademarks: Lesser of 20 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 asset 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 commercialisation of its proprietary flame retardant and Phase Change Material technologies and selling its specialised 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 profit or loss.

(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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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.

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 recognised 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.

(s) 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.

(t) 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:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

- 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.

(u) 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.

(v) 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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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.

(w) 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

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.

(x) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

Change in presentation currency

These financial statements and notes represent a change in presentation currency from the Australian Dollar to the US Dollar. This change, which required significant accounting judgement, aligns the company's financial reporting with the nature of the business operations which primarily occur in the United States. This financial report, the comparative period within, and all future financial reports, will therefore be presented in US Dollars.

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) and Black-Scholes option pricing models. 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. The assessed fair values of the embedded 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. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 24 for further disclosures.

Intangible Assets

The Group assess at initial recognition whether an internally developed asset has met the recognition requirements established in AASB 138 and measures the direct and indirect costs of development using several estimates and assumptions. After capitalisation, management monitors whether the recognition requirements continue to be met and whether there are any indicators that capitalised costs may be impaired. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In the twelve months ended 30 June 2018 no impairment was identified. See Note 12 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 2018, the Group has generated a loss for the period of \$3,961,119 (2017: \$9,136,923) and the Group has used cash in operations of \$5,558,690 (2017: \$9,798,924).

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 commercialisation activities over the next 12 months and the Group has the ability to realise 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

3. REVENUE & OTHER INCOME

	Consolidated	
	2018 (\$)	2017 (\$)
Sale of goods	11,911,816	17,929,361
Other income (a)	<u>-</u>	<u>159,000</u>
	<u>11,911,816</u>	<u>18,088,361</u>
Interest received	<u>20,119</u>	<u>9,075</u>

(a) Other income

During the period the Group received \$Nil (2017: \$159,000) 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	
	2018 (\$)	2017 (\$)
Amortisation	10,310	9,672
Employee benefits expense- Admin	1,657,936	2,692,954
Insurance expenses	128,335	57,914
Other administrative expenses	547,841	716,411
Professional fees	913,983	1,148,831
Share-based payments	<u>(87,247)</u>	<u>396,873</u>
Total administrative expenses	<u>3,171,158</u>	<u>5,022,655</u>

5. DEPRECIATION AND AMORTISATION EXPENSE

	Consolidated	
	2018 (\$)	2017 (\$)
Depreciation	294,385	258,391
Amortisation	<u>13,384</u>	<u>12,235</u>
Total depreciation and amortisation expenses	<u>307,769</u>	<u>270,626</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

6. AUDITORS' REMUNERATION

The Group's auditor is Grant Thornton Audit Pty Ltd

	Consolidated	
	2018 (\$)	2017 (\$)
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	110,519	120,329
(b) Other services in relation to the entity and any other entity in the consolidated group- Services in connection with NASDAQ Listing	6,441	46,150
	<u>116,960</u>	<u>166,479</u>
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	-	-
(b) Other services in relation to the entity and any other entity in the consolidated group	-	-
	<u>-</u>	<u>-</u>

7. TAXATION

(a) Income tax recognised in profit and loss

	2018 (\$)	2017 (\$)
Profit /(loss) before tax	(3,961,119)	(9,136,923)
Prima facie tax on operating loss before income tax at 27.5%	(1,089,308)	(2,512,654)
Deferred tax asset not recognised	(4,358)	(27,923)
Tax effect of permanent differences:		
- Meals and entertainment	18,144	13,848
- Interest on convertible note	192,241	46,411
- Share-based payments expense	(23,993)	109,190
- Lobbying expenses	66,000	63,800
- Differences in jurisdictional tax rates	(367,032)	(664,040)
Tax losses not brought to account	<u>1,980,285</u>	<u>2,971,368</u>
Income tax benefit attributable to reversal of deferred tax liability on intangible assets	<u>771,979</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

	2018 (\$)	2017 (\$)
(b) Deferred tax assets		
Deferred tax assets at 30 June brought to account:		
Employee benefits	576	-
Accrued expenses	20,231	29,342
Expenses deducted over 5 years	117,776	14,561
Income tax losses	<u>790,037</u>	<u>485,474</u>
	<u>928,620</u>	<u>529,377</u>
(c) Deferred tax liability		
Unrealised FX	848,378	524,479
Basis difference on fixed assets	<u>80,242</u>	<u>4,898</u>
	<u>928,620</u>	<u>529,377</u>
(d) Net deferred tax position		
Deferred tax assets	928,620	529,377
Deferred tax liabilities	<u>928,620</u>	<u>529,377</u>
Net deferred tax position	<u>-</u>	<u>-</u>
(e) Deferred tax assets not recognised		
Charitable contributions	24,874	36,473
Accrued and prepaid expenses	20,709	55,851
Basis difference on intangibles and start-up costs	498	152,849
Deferred revenue	-	9,118
163(j) limitation	238,420	-
Income tax losses	<u>7,511,434</u>	<u>9,670,319</u>
Net deferred tax position	<u>7,795,935</u>	<u>9,924,610</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 \$34,990,283 (2017: \$29,960,460) 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 2018**

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	
	2018	2017
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	325,688,534	301,680,844
	\$	\$
Basic loss	(3,961,119)	(9,136,923)
Basic / Diluted loss per share	(0.0122)	(0.0303)

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	
	2018	2017
	Number of securities	Number of securities
Options over ordinary shares	2,400,000	13,491,626
Warrant options	4,255,319	-
Performance rights	1,324,000	-
	7,979,319	13,491,626

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	
	2018 (\$)	2017 (\$)
Current		
Trade debtors	487,353	1,049,228
Other receivables	26,447	48,261
	513,800	1,097,489

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

10. INVENTORIES

	Consolidated	
	2018 (\$)	2017 (\$)
Raw materials	1,224,267	1,073,391
Finished goods	<u>292,281</u>	<u>533,773</u>
Total inventory	<u><u>1,516,548</u></u>	<u><u>1,607,164</u></u>

11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated			
	Furniture & Equipment	Leased assets	Construction In Progress	Total
	\$	\$	\$	\$
Cost or valuation				
Balance at 1 July 2016	649,591	333,901	240,676	1,224,168
Additions	147,958	527,069	857,587	1,532,614
Disposals	(80,667)	-	-	(80,667)
Transfers	1,098,263	-	(1,098,263)	-
Foreign exchange movements	(1,639)	-	-	(1,639)
Balance at 30 June 2017	<u>1,813,506</u>	<u>860,970</u>	<u>-</u>	<u>2,674,476</u>
Additions	42,646	342,907	-	385,553
Disposals	(187,257)	(197,060)	-	(384,317)
Foreign exchange movements	1,066	-	-	1,066
Balance at 30 June 2018	<u><u>1,669,961</u></u>	<u><u>1,006,817</u></u>	<u><u>-</u></u>	<u><u>2,676,778</u></u>
Depreciation and impairment				
Balance at 1 July 2016	356,416	260,020	-	616,436
Depreciation	178,032	80,359	-	258,391
Disposals	(76,648)	-	-	(76,648)
Foreign exchange movements	(560)	-	-	(560)
Balance at 30 June 2017	<u>457,240</u>	<u>340,379</u>	<u>-</u>	<u>797,619</u>
Depreciation	194,350	100,035	-	294,385
Disposals	(173,736)	(197,061)	-	(370,797)
Foreign exchange movements	52	-	-	52
Balance at 30 June 2018	<u><u>477,906</u></u>	<u><u>243,353</u></u>	<u><u>-</u></u>	<u><u>721,259</u></u>
Net book value				
At 30 June 2016	293,175	73,881	240,676	607,732
At 30 June 2017	1,356,266	520,591	-	1,876,857
At 30 June 2018	<u><u>1,192,055</u></u>	<u><u>763,464</u></u>	<u><u>-</u></u>	<u><u>1,955,519</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

12. INTANGIBLE ASSETS

	Consolidated	
(a) Patents and trademarks	2018 (\$)	2017 (\$)
Cost		
Balance at 1 July	199,152	205,131
Additions- acquired	-	-
Impairment	-	-
Foreign exchange movements	3,187	(5,979)
Balance at 30 June	<u>202,339</u>	<u>199,152</u>
Depreciation and impairment		
Balance at 1 July	101,864	94,674
Amortisation	10,309	9,809
Impairment	-	-
Foreign exchange movements	1,472	(2,619)
Balance at 30 June	<u>113,645</u>	<u>101,864</u>
Net book value	<u>88,694</u>	<u>97,288</u>

	Consolidated	
(b) Capitalised development costs	2018 (\$)	2017 (\$)
Cost		
Balance at 1 July	-	-
Additions- internally developed	662,717	-
Impairment	-	-
Foreign exchange movements	-	-
Balance at 30 June	<u>662,717</u>	<u>-</u>
Depreciation and impairment		
Balance at 1 July	-	-
Amortisation	-	-
Impairment	-	-
Foreign exchange movements	-	-
Balance at 30 June	<u>-</u>	<u>-</u>
Net book value	<u>662,717</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

(c) Software	Consolidated	
	2018 (\$)	2017 (\$)
Cost		
Balance at 1 July	15,377	-
Additions- acquired	-	15,377
Impairment	-	-
Foreign exchange movements	-	-
Balance at 30 June	<u>15,377</u>	<u>15,377</u>
Depreciation and impairment		
Balance at 1 July	2,563	-
Amortisation	3,075	2,563
Impairment	-	-
Foreign exchange movements	-	-
Balance at 30 June	<u>5,638</u>	<u>2,563</u>
Net book value	<u>9,739</u>	<u>12,814</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 assets and begins once the asset is placed in service.

13. TRADE AND OTHER PAYABLES

Current	Consolidated	
	2018 (\$)	2017 (\$)
Trade creditors	259,110	1,093,552
Other creditors	<u>179,683</u>	<u>313,011</u>
	<u>438,793</u>	<u>1,406,563</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

Current	Consolidated	
	2018 (\$)	2017 (\$)
Deferred income	<u>-</u>	<u>24,947</u>

At period end 2017 the Group had sales orders which were paid in advance and had not shipped. Revenue was not recognised for the sales until shipment of the materials.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

15. BORROWINGS

Convertible note- On September 30, 2017 the Company entered a convertible note, secured by the company's assets, with institutional lenders to refinance the Group's previous debt. The USD\$10 million note carries a thirty-six-month term and 13.5% annual interest rate and is convertible into ordinary shares upon a change of control. The Borrowings have been measured at amortised cost, a gain or loss is recognised in profit or loss when the borrowings are derecognised or impaired, and through the amortisation process. The Company allocates interest payments over the term of the borrowings at a constant rate on the carrying value. \$5 million of the proceeds from the funding was used to pay down the loan facility originated on December 30, 2016, which carried a shorter term, higher interest rate, and greater warrant coverage.

Capital leases- The Group leases certain equipment under financing leases expiring in various years through 2023, with terms ranging from 3 to 5 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. See Note 26 for further disclosures.

	2018 (\$)	2017 (\$)
Loan facility	-	4,354,294
Current capital leases payable	<u>243,667</u>	<u>145,380</u>
	243,667	4,499,674
Loan facility	6,820,549	-
Non-current leases payable	<u>360,416</u>	<u>302,888</u>
	7,180,965	302,888
	<u>7,424,632</u>	<u>4,802,562</u>

Derivative liability

Under the agreement, warrants will be issued up to 20% of the borrowings, with 47 cents (adjusted to 35 cents as being the price under the December 2017 placement) exercise price, for a period of five years. The borrowing is a hybrid instrument with liability and derivative liability components. The warrants and convertible note option 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 (0.35), risk-free rate (2.1%), remaining term (convertible note – 2.25 years, warrants - 4.25 years) and volatility (88.15%).

	2018 (\$)	2017 (\$)
Derivative liability	<u>630,983</u>	<u>811,951</u>
	630,983	811,951

	2018 (\$)	2017 (\$)
Change in fair value of derivative liability recorded at profit or loss	<u>2,369,993</u>	<u>(142,073)</u>
	2,369,993	(142,073)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Gain on debt extinguishment

The previous loan facility of \$5 million, which, was paid down at the origination of the current facility included 4,166,667 attached warrants. The warrants included an embedded derivative relating to the exercise price that was measured at fair value and separated with changes in value being recorded in profit or loss. At the time of extinguishment, the derivative liability had a carrying value of \$396,591, the disposal of which is recognised on the consolidated profit and loss statement.

	2018 (\$)	2017 (\$)
Gain on debt extinguishment	396,591	-
	<u>396,591</u>	<u>-</u>

16. CONTRIBUTED EQUITY

(a) Issued capital

	2018 Shares	2017 Shares	2018 \$	2017 \$
Ordinary shares fully paid	345,443,598	303,827,998	54,367,832	45,833,450

(b) Movement in share capital

Balance at beginning of year	303,827,998	298,736,791	45,833,450	43,657,181
Options converted to shares	2,425,000	4,202,083	338,244	509,607
Capital raising	39,005,600	-	10,106,575	-
Costs of capital raising	-	-	(468,358)	-
Conversion of performance rights	-	-	-	-
Shares issued in lieu of salary and sales achievement	185,000	535,713	52,728	245,759
Shares issued in lieu of services	-	353,411	-	155,857
Foreign currency translation	-	-	(1,494,807)	1,265,046
	<u>345,443,598</u>	<u>303,827,998</u>	<u>54,367,832</u>	<u>45,833,450</u>

(c) Movements in performance rights

	2018 Number	2017 Number	2018 \$	2017 \$
Balance at beginning of year	-	3,250,000	-	304,250
Rights expired during year	-	(3,250,000)	-	(304,250)
Rights forfeited during year	-	-	-	-
Rights converted to shares during year	-	-	-	-
Rights issued, net of costs	1,324,000	-	54,272	-
	<u>1,324,000</u>	<u>-</u>	<u>54,272</u>	<u>-</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

(d) Share options issued

At the year-end, there were Nil free attaching options outstanding (2017: 6,916,626) and 2,400,000 share-based payment options outstanding (2017: 6,575,000). Refer to Note 17(c) for details of the share-based payment options outstanding.

(e) Movements in share options

Year 2018	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	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	30,000	-	(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	1,065,000	-	(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	1,125,000	-	(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
				13,491,626	-	(2,425,000)	(8,666,626)	2,400,000

- 8,666,626 options expired during the current year (2017: 88,648).
- 2,425,000 share-based payment options were exercised during the current year (2017: 3,343,750)
- Nil free attaching options were exercised during the current year (2017: 858,333)
- All options were exercised for an equivalent number of ordinary shares.

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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

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
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(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

	2018		2017	
	Number	\$	Number	\$
(a) Shares issued during the year	185,000	54,758	1,320,388	599,602
(b) Shares agreed to be issued forfeited during the year	(431,264)	(199,597)	-	-
(c) Performance Rights allocated but not issued	1,324,000	57,592	Nil	Nil
(d) Options issued during the year	Nil	Nil	900,000	92,387

(a) Shares

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

- (i) 185,000 shares issued as part of the employee share plan.
- (ii) 431,264 shares agreed to be issued in the prior year were forfeited during the year

The equity-settled share-based payments provided during the prior 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.
- (iii) 353,411 shares issued in lieu of services provided by the external consultants of the Company.
- (iv) Share-based payments totalled \$691,990, of which \$295,117 was included in employee benefit expense and \$396,873 is included as share-based payments.

(b) Performance rights

During the period ended 30 June 2018 1,324,000 performance rights were granted for the 12-month performance period ending 31 December 2018. At the reporting date, 450,000 of these rights had been forfeited due to staff departures and an expense of Nil recognised. An expense of \$57,592 was recognised for the remaining 874,000 rights.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(c) Options

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

	2018		2017	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	6,575,000	\$ 0.63	9,018,750	\$ 0.39
Granted during the year	-	\$ -	900,000	\$ 1.25
Reinstated during the year	-	\$ -	-	\$ -
Forfeited during the year	-	\$ -	-	\$ -
Exercised during the year	(2,425,000)	\$ 0.19	(3,343,750)	\$ 0.13
Expired during the year	(1,750,000)	\$ 0.84	-	\$ -
Outstanding at 30 June	<u>2,400,000</u>	<u>\$ 0.94</u>	<u>6,575,000</u>	<u>\$ 0.63</u>

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 0.45 years (2017: 0.13 years), and the exercise prices range from 75 cents to 175 cents (2017: 18 cents to 175 cents).

The assessed fair values of the options were determined using a variation of the binomial option pricing model that considers factors specific to the share incentive plans. The following principal assumptions were used in the valuation:

	30-Jun-18			30-Jun-17		
	Number	Average fair value per option	\$	Number	Average fair value per option	\$
a) Services rendered	-	-	-	900,000	0.102652	92,387
b) Directors	-	-	-	-	-	-
	-	-	-	900,000	0.102652	92,387

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%

18. RESERVES

2018	Option premium reserve	Performance rights reserve	Foreign currency translation reserve	Total reserve
	\$	\$	\$	\$
Balance at 1 July 2017	5,856,738	619,640	(2,287,525)	4,188,853
Performance right expense	-	54,272	-	54,272
Foreign currency translation differences arising during the year	(221,770)	(21,489)	2,423,955	2,180,696
Balance at 30 June 2018	<u>5,634,968</u>	<u>652,423</u>	<u>136,430</u>	<u>6,423,821</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2017	Option premium reserve	Performance rights reserve	Foreign currency translation reserve	Total reserve
	\$	\$	\$	\$
Balance at 1 July 2016	5,590,802	601,036	(748,131)	5,443,707
Share-based payment expense	92,387	-	-	92,387
Foreign currency translation differences arising during the year	173,549	18,604	(1,539,394)	(1,347,241)
Balance at 30 June 2017	5,856,738	619,640	(2,287,525)	4,188,853

19. ACCUMULATED LOSSES

	Consolidated	
	2018 (\$)	2017 (\$)
Balance at beginning of year	(49,853,653)	(40,716,730)
Net loss attributable for the year	(3,961,119)	(9,136,923)
Foreign currency translation	8,155	-
Balance at end of year	<u>(53,806,617)</u>	<u>(49,853,653)</u>

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	
	2018 (\$)	2017 (\$)
Cash on hand	<u>10,641,763</u>	<u>2,620,759</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(b) Reconciliation of operating loss after income tax to net cash used in operating activities

	Consolidated	
	2018 (\$)	2017 (\$)
Operating loss after income tax	(3,976,257)	(9,136,923)
Non-cash items		
Depreciation and amortisation of non-current assets	322,907	270,626
Share-based payment	(87,247)	679,015
Fair value movement- embedded derivative	(2,369,993)	142,072
Interest and amortisation on cost of raising borrowings	1,068,060	62,870
Gain on Debt Extinguishment	(396,591)	-
Unrealised foreign exchange (gains) / losses	393,727	(1,560)
 <i>Changes in assets and liabilities net of effect of purchase of subsidiaries</i>		
(Increase) / Decrease in trade and other receivables	583,689	(954,799)
(Increase) / Decrease in inventories on hand	90,616	(374,437)
(Increase) / Decrease in other current assets	7,851	(10,111)
Increase / (Decrease) in trade and other payables	(967,770)	(689,694)
Increase / (Decrease) in other current liabilities	(227,682)	214,017
Net cash (used in) operating activities	<u>(5,558,690)</u>	<u>(9,798,924)</u>

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

	Consolidated	
	2018 (\$)	2017 (\$)
Property, plant and equipment additions per note 11	385,553	1,532,614
Non-cash items		
Addition of financing leases	(342,907)	(527,069)
Foreign exchange movement on transfers	-	-
Change in liabilities related to additions		
(Increase) / Decrease in current liabilities	(849)	198,865
Purchase of property, plant and equipment per statement of cash flows	<u>41,797</u>	<u>1,204,410</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:

- (i) US\$23,778 (2017: US\$51,240) was for lease charges on office space in Washington D.C. which expired in March 2018
- (ii) Nil (2017: US\$50,000) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(b) Nelson Mullins Riley & Scarborough LLP

During the period, the following was paid to Nelson Mullins, a related party of Craig Metz, Non-Executive Director:

- (i) US\$48,000 (2017: US\$48,000) was paid by The Nardelli Group on behalf of Alexium for the continuation of Government Relations Activity.

(c) Transactions with key management personnel

	2018 (\$)	2017 (\$)
Short-term employee benefits		
Salary and fees	1,026,682	1,434,390
Medical benefits	42,451	52,469
Other	97,698	165,857
Total short-term employee benefits	<u>1,166,831</u>	<u>1,652,716</u>
Post-employment super-annuation	-	3,588
Total post-employment benefits	<u>-</u>	<u>3,588</u>
Share-based payments- Performance rights	20,612	329,154
Total share-based payments	<u>20,612</u>	<u>329,154</u>
Short-Term Incentive Plan	-	-
Long-Term Incentive Plan	-	-
Total incentive plan payments	<u>-</u>	<u>-</u>
Total remuneration	<u><u>1,187,443</u></u>	<u><u>1,985,458</u></u>

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 specialised 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
2018				
Sales Revenue	-	11,911,816	-	11,911,816
Interest Revenue	10,985	9,134	-	20,119
Other Income	437,210	(40,619)	-	396,591
Interest Expense	2,075,375	222,251	-	2,297,626
Property, Plant and Equipment	-	1,923,164	32,355	1,955,519
Intangible assets	-	657,318	88,695	746,013
Depreciation and Amortisation	2,342	291,670	13,757	307,769

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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	Australia	US	Cyprus	Total
2017				
Sales Revenue	-	17,929,361	-	17,929,361
Interest Revenue	5,946	3,129	-	9,075
Other Income	-	159,000	-	159,000
Interest Expense	26,690	422,652	-	449,342
Property, Plant and Equipment	3,793	1,837,889	35,175	1,876,857
Intangible assets	-	12,814	97,288	110,102
Depreciation and Amortisation	3,281	254,426	12,919	270,626

23. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Percentage Owned (ordinary shares)	
		2018 (%)	2017 (%)
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 US\$40,196,893 (2017: US\$23,765,319).

The parent entity has an interest free unsecured loan with Alexium Ltd amounting to US\$303,108 (2017: US\$298,348).

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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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
	%	\$	\$	\$	\$	\$	\$
2018							
Financial Assets							
Cash and cash equivalents	0.38	10,317,995	-	-	-	323,768	10,641,763
Trade and other receivables/other financial assets		-	-	-	-	513,800	513,800
		<u>10,317,995</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>837,568</u>	<u>11,155,563</u>
Financial Liabilities							
Trade and other payables		-	-	-	-	438,793	438,793
Capital lease liabilities	9.27	-	289,572	402,232	-	-	691,804
Convertible note	13.50	-	-	10,000,000	-	-	10,000,000
Derivative Liability		-	-	630,983	-	-	630,983
		<u>-</u>	<u>289,572</u>	<u>11,033,215</u>	<u>-</u>	<u>438,793</u>	<u>11,761,580</u>
2017							
Financial Assets							
Cash and cash equivalents	0.21	889,260	-	-	-	1,731,499	2,620,759
Trade and other receivables/other financial assets		-	-	-	-	1,097,489	1,097,489
		<u>889,260</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,828,988</u>	<u>3,718,248</u>
Financial Liabilities							
Trade and other payables		-	-	-	-	1,634,245	1,634,245
Capital lease liabilities	9.93	-	182,533	345,444	-	-	527,977
Borrowings	15.00	-	4,499,674	-	-	-	4,499,674
Derivative Liability		-	-	811,951	-	-	811,951
		<u>-</u>	<u>4,682,207</u>	<u>1,157,395</u>	<u>-</u>	<u>1,634,245</u>	<u>7,473,847</u>

(b) Interest rate risk

At 30 June 2018, 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 \$106,418 higher (2017: changes of 1% \$26,208 higher/\$26,208 lower) based on cash and cash equivalents.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(c) Foreign currency risk

The Group currently conducts its operations across international borders. A large proportion of the Group's revenues, cash inflows, other expenses, capital expenditure and commitments are denominated in foreign currencies, mostly with costs and income in US dollars with smaller, less frequent transactions in GBP, Euros and Australian Dollars.

For the reporting period ended 30 June the Group has changed reporting currencies from Australian Dollars to US Dollars. This change was made to mitigate the Group's exposure to foreign currency risk. While the majority of transactions will now have decreased risk of currency fluctuations, the Group does still conduct business, procure services, and engage in financing activities in other currencies. 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 US 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.

Consolidated	Net Financial Assets/(Liabilities) in USD				
	USD	AUD	GBP	Other	Total USD
Functional currency of entity:					
Australian dollar	40,196,893	-	303,108	-	40,500,001
US dollar	-	-	(571,573)	-	(571,573)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	40,196,893	-	(268,465)	-	39,928,428

2017 Consolidated	Net Financial Assets/(Liabilities) in USD				
	USD	AUD	GBP	Other	Total USD
Functional currency of entity:					
Australian dollar	23,765,319	-	298,348	-	24,063,667
US dollar	-	-	(682,318)	-	(682,318)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	23,765,319	-	(383,970)	-	23,381,349

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 of 24 August 2018, Alexium had collected 99% of all receivables outstanding at 30 June 2018. Total bad debt expense for the year was \$12,364, 0.1% of total revenue.

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(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 2018, the Group's non-derivative financial liabilities have contractual maturities as summarised below:

2018			
Consolidated	Current	1-5 Years	5+ years
Trade and other payables	438,793	-	-
Finance lease obligations	289,572	402,232	-
Borrowings	-	13,078,750	-
Total	728,365	13,480,982	-

2017			
Consolidated	Current	1-5 Years	5+ years
Trade and other payables	1,431,510	-	-
Finance lease obligations	182,553	345,444	-
Borrowings	5,562,500	-	-
Total	7,176,563	345,444	-

(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 2018 and 2017, 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

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 a convertible note maturity of three years and warrant expiration date of five years from the 29 September 2017 issuance date.

The following shows the levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at 30 June 2018 and 30 June 2017

2018

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Liabilities				
Derivative Liability	-	-	630,983	630,983
Total Liabilities	-	-	630,983	630,983

2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial Liabilities				
Derivative Liability	-	-	811,951	811,951
Total Liabilities	-	-	811,951	811,951

There were no transfers Level 1 and Level 2 in 2018 or 2017.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

25. PARENT ENTITY INFORMATION

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2018. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity	
	2018 (US\$)	2017 (US\$)
Current assets	1,458,930	269,540
Non-current assets	13,133,137	1,192,780
Total assets	<u>14,592,067</u>	<u>1,462,320</u>
Current liabilities	155,498	481,719
Non-current liabilities	7,451,533	811,951
Total liabilities	<u>7,607,031</u>	<u>1,293,670</u>
Contributed equity	54,367,832	45,833,450
Accumulated losses	(53,806,617)	(49,853,653)
Foreign currency reserve	136,430	(2,287,525)
Performance rights reserves	652,423	619,640
Options reserves	5,634,968	5,856,738
Total equity	<u>6,985,036</u>	<u>168,650</u>
Loss for the year	(3,952,964)	(9,136,923)
Other comprehensive income net of tax for the year	685,889	(82,195)
Total comprehensive income net of tax for the year	<u>(3,267,075)</u>	<u>(9,219,118)</u>

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

26. COMMITMENTS AND CONTINGENCIES

The Group has the following contingent liabilities and commitments.

Reactive Surface Treatment (RST) technology is a legacy chemistry for Alexium which is not currently utilised in any of the Company's existing FR or PCM solutions. 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 the Company's current fire-retardant and phase change products.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

(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.

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

	Consolidated	
	2018 (\$)	2017 (\$)
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	121,395	123,832
Later than one year but not later than 5 years	<u>586,974</u>	<u>495,607</u>
	<u><u>708,369</u></u>	<u><u>619,439</u></u>

2) *Finance leases*

The Group leases certain equipment under financing leases expiring in various years through 2023, with terms ranging from 3 to 5 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 \$100,035 and \$80,359 for the years ended June 30, 2018 and 2017 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:

	2018 (\$)	2017 (\$)
Not later than one year	289,572	182,533
Later than one year and not later than five years	<u>402,232</u>	<u>345,444</u>
Total	<u><u>691,804</u></u>	<u><u>527,977</u></u>
Future finance charges on finance leases	<u>(87,721)</u>	<u>(79,709)</u>
Present value of finance lease liability	<u><u>604,083</u></u>	<u><u>448,268</u></u>

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

	2018 (\$)	2017 (\$)
Not later than one year	243,667	145,380
Later than one year and not later than five years	<u>360,416</u>	<u>302,888</u>
Total	<u><u>604,083</u></u>	<u><u>448,268</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

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 2018.

(b) Contingencies

The Group has no other contingent liabilities as at 30 June 2018.

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 13 July 2018, the Board of Directors appointed Dr. Robert Brookins as Chief Executive Officer and Managing Director. Dr. Brookins was appointed as interim Chief Executive Officer on 31 May 2018. Please see the 13 July 2018 Appendix 3X for more details.

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

ALEXIUM INTERNATIONAL GROUP LIMITED

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, consolidated statement of cash flows, consolidated statement of changes in equity and accompanying notes, are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001, other mandatory professional reporting requirements
 - (b) give a true and fair view of the Company's financial position as at 30 June 2018 and of its performance for the year ended on that date; and
 - (c) comply with International Financial Reporting Standards as disclosed in Note 2 of the financial statements.
2. The remuneration disclosures included in the Directors' Report (as part of the audited Remuneration Report) for the year ended 30 June 2018, comply with section 300A of the *Corporations Act 2001 (Cth)*.
3. 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.
4. The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001 (Cth)*.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Susan Thomas

Chair

Dated 31 August 2018



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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 2018, 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 2018 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 auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the 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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INDEPENDENT AUDITOR'S REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED



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.

Key audit matter	How our audit addressed the key audit matter
<p>Borrowings – Embedded derivative liability – refer to Notes 2 (n) and 15</p> <p>On September 30, 2017 the Group entered a convertible note, secured by the Group's assets, with institutional lenders to refinance the Group's previous debt facility and increase working capital.</p> <p>The USD\$10 million note with GPB debt Holdings II LLC carries a thirty-six-month term and 13.5% annual interest rate and is convertible into ordinary shares upon a change of control.</p> <p>Under the agreement, warrants will be issued up to 20% of the borrowings for a period of five years. The borrowing is a hybrid instrument with liability and derivative liability components. 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.</p> <p>Determining the appropriate accounting treatment for embedded derivatives may be complex and involve significant management judgement. This area is a key audit matter as there is a 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"> evaluating and assessing the design of controls over the processes to record, review and report the Group's debt facilities; obtaining and reading the loan agreements to understand the transactions and its related terms; evaluating management's determination of the accounting treatment of the convertible note. Management determined that it is a hybrid instrument, with an embedded derivative that needed a valuation; testing management's assumptions used in the Black-Scholes option pricing calculation of the fair value of the embedded derivative, using the work of management's expert; reviewing the calculation of amortised cost and interest expense of the loan to assess mathematical and clerical accuracy, as well as tracing inputs to source documentation; tracing the funds received and reimbursed into the respective financial institutions; performing testing of management's debt extinguishment calculations for the TCA Global Credit Master Fund debt; and assessing the appropriateness of the financial statement disclosures.
<p>Intangible assets – refer to Notes 2 (h), 2 (x) and 12</p> <p>The Group has capitalised development costs in relation to its current development projects (Nyco, Alexiflam NF and Alexicool CCE). There is a risk that costs capitalised may not comply with the recognition requirements relevant to AASB 138 <i>Intangible Assets</i>.</p> <p>Management judgement is applied in determining the commercial and technical feasibility of capitalised projects, including management's assessment of future economic benefits.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> understanding the design of controls over the processes to record and evaluate development costs capitalised; assessing the appropriateness of management's policy for capitalising development costs pursuant to AASB 138 by obtaining management's position paper; obtaining and reviewing evidence to support the key assumptions used by management including mostly third-party evidence, such as Memorandum of Understanding agreement on their current development projects, email correspondence with lawyers and invoices; selecting a sample of capitalised costs and agreeing to third party support and payroll reports to identify whether they have been appropriately capitalised in accordance with accounting policies;

INDEPENDENT AUDITOR'S REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED



This area is a key audit matter due to the subjectivity involved in assessing the recognition criteria for capitalised development costs.	• assessing the appropriateness of the financial statement disclosures.
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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 2018, 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 13 to 22 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Alexium International Group Limited, for the year ended 30 June 2018 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.

A stylized, handwritten signature of Grant Thornton in black ink.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

A handwritten signature of M J Hillgrove in black ink.

M J Hillgrove
Partner – Audit & Assurance

Perth, 31 August 2018