

14 October 2019

Ms Anjuli Sinniah
Senior Advisor
Listings Compliance (Perth)

By email: ListingsCompliancePerth@asx.com.au

Dear Ms Sinniah

Response to queries regarding accounts

Further to your letter dated 8 October 2019, the Company provides the following responses to the queries raised therein.

Yours faithfully



Maja McGuire
Company Secretary

FOR AND ON BEHALF OF

Alexium International Group Ltd.

1. Is AJX able to confirm that in the Directors' Opinion the Annual Report: (a) comply with the relevant Accounting Standards; and (b) give a true and fair view of AJX's financial performance and position?

We refer to the Directors' Declaration of 30 September 2019 contained within the financial report. This declaration was resolved unanimously by the Board and confirms the Directors' view that the financial statements give a true and fair view of the financial position and performance of AJX and comply with the relevant Accounting Standards.

2. The qualified opinion relates to AJX's capitalized development costs and that the auditors were unable to obtain sufficient appropriate audit evidence to support the Director's assessment that the carrying value of the capitalized development costs do not exceed their recoverable amount. Further, the auditors were of the opinion that in the event that the capitalised development costs exceeded their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount.

Please explain how the directors, through the impairment testing described in note 12, satisfied themselves that the capitalized development costs amount of \$1,684,708 is an appropriate value. Further, the Directors should comment whether the values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.

The Board and management of AJX have satisfied themselves that the capitalised development costs of \$1,684,708 is an appropriate value for the technology assets of AJX and that this amount was determined in accordance with current Australian Accounting Standards. In forming this view, the Board considered a number of factors that supported that conclusion, including that:

- AJX owns and controls technology assets known in the market as Alexiflam and Alexicool. Further information on these assets can be found on the AJX Website.
- AJX controls the future economic benefits of these technology assets including through registered patents and patents pending and these legal rights are enforceable in a court of law.
- In protection of our legal rights, all employees and officers have legal duties under their employment contracts to maintain confidentiality in respect of these assets.
- Any supply agreements, exclusivity agreements or other agreements entered into with current and future customers contain specific legal clauses which protect these technology assets and grant the customer a right to use the technology assets.
- The current and future economic benefits flowing from these technology assets include revenue from the sale of products, cost savings and other benefits which result from the use of these assets including their use in production processes.

Further to those factors, the Board considered the relevant Accounting Standards and notes that:

- AJX has recognised these assets in the statement of financial position in accordance with AASB 138 paragraphs 21 and 22 on the basis that it is probable that the expected future economic benefits attributable to the assets will flow to AJX and the cost has been reliably measured.

- AJX has assessed the probability of expected future economic benefits using assumptions that represent the best estimate of the economic conditions that exist over the useful life of the assets. Patents provide AJX with legal protection for these assets for 20 years but for these purposes, management has used a useful life of 5 years.
- In accordance with AASB 136 paragraphs 9 and 10, a number of actions were taken to test whether there was any evidence that these technology assets were impaired.
- Officers of the company, including the CEO, CFO and CCO, have over a combined 140 years of management experience in the Advanced Material Sciences industry in the United States and in particular in commercialising these types of technology assets.
- Reasonable and conservative management based future expected revenues and gross margins based on active commercialisation efforts over a five-year period (and which are in accordance with budget) were prepared with consideration for annual obsolescence.
- AJX engaged a valuation firm with over 1,300 valuation professionals that performs objective and supportable valuation services in over 60 countries including the US and Australia and has direct expertise in the chemical industry and particularly with advanced material sciences.
- The valuation firm used a Net Present Value (NPV) model based on fair value less cost to sell in accordance with AASB 136 paragraphs 25-29 with verifiable external royalty rates and an Internal Rate of Return that included risk free rate, beta, equity risk premium, size premium and additional risk premium.
- The valuation also took into account that AJX has residual goodwill of US\$37M, providing further evidence of strong intangible asset coverage.
- In accordance with AASB 136 paragraphs 66-73, the intangibles form two Cash-Generating Units (CGUs). Each CGU was separately tested and passed impairment testing.
- The valuer then performed a series of extreme stress tests including using discount rates for technology based companies in start-up phase to test the efficacy of the expected revenues and gross margins. Each CGU passed impairment testing at these levels.
- With respect to the validity of assumptions, the valuer used industry best practices along with market information to determine the appropriate inputs to use in the valuation model. For example, the valuer referenced 26 royalty rate comparables for technology with min/max and quartile data. Approximately one-third of the listed royalties are from the chemical industry and the valuer referenced the data source as “RoyaltySource®”. In addition, weighted average cost of capital (WACC) which is used as the discount rate in the NPV calculations is prepared with sources from CapitalQ, Duff, Phelps Cost of Capital software and Moody’s BAA corporate bond yield rate.
- The Directors have reviewed the forecast model directly with management and have reviewed the valuation undertaken and subsequent stress testing of the results.

3. What steps has AJX taken since the release of the Annual Report to obtain an unqualified opinion with regards to its future financial statements?

The Directors and management have and are taking the following steps to obtain an unqualified opinion in the future:

- A capital management strategy is currently being executed to strengthen the statement of financial position of the Group before 31 December 2019.

- An update was provided to the market on 3 October 2019 regarding the commercialisation efforts regarding Alexicool technology assets including a sales pipeline of USD\$45 million.
- Further production scale testing of Alexiflam NyCo has been undertaken including continuing testing verification of our management revenue forecasts given this work is being undertaken via an exclusivity agreement but as yet no supply agreement has been executed.

4. What steps does AJX intend to take to obtain an unqualified audit opinion with regards to its future financial statements?

Please refer to the response at question 3 above.

5. Does AJX consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the AJX's current business activities.

The Board considers that the Company's operations are sufficient to warrant continued quotation of its securities on ASX. The Company is principally a technology company seeking to exploit its intellectual property for the benefit of shareholders. In relation to the execution of that strategy, the Company notes the following:

- The Company has received US Environmental Protection Authority approval for its Alexiflam product (announced in April 2019).
- The Company has entered into various MOUs and agreements with manufacturers and suppliers in the US, all of which have been announced to ASX.
- The current operations of the Company were set out in the Investor Presentation released to ASX on 6 May 2019. The Company's activities remain consistent with the disclosures in that announcement.
- The Company most recently provided an update on the status of its operations and execution of its business plan on 3 October 2019, which noted an increase in sales of the Company's Alexicool products over the past year and provided an update on the progress of the development of the Company's Alexiflam products, including the progress of the MOU with ICL for the distribution, manufacturing and development of Alexiflam NF products to global markets.

The Board considers that the ongoing work being done to develop the Company's technology, is consistent with the work expected of an ASX listed company.

6. Does AJX consider that the financial condition of AJX is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.

The Directors have reviewed AJX's current financial position, past performance, forecasted revenue and cash flows, and concluded that the financial condition of the Company remains adequate to satisfy ASX Listing Rule 12.2.

In making this determination, the Directors have considered the Company's forecasted growth in commercial sales, continued reduction in expenses and capital infusion. In particular:

- The Directors note that there is sufficient working capital to support committed research and commercialization activities over the next 12 months.
- The Directors are of the opinion that sufficient additional funding can be secured in the coming period and are reviewing all potential alternatives of funding the business.

7. If the answer to questions 5 or 6 is "No", please explain what steps AJX has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.

N/A

8. In relation to the Annual Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of AJX's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of AJX have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of AJX and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?

As noted in the Directors' Declaration accompanying the financial statements, these declarations were received by the Board.

9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of AJX's Corporate Governance Disclosure?

N/A

10. What enquiries did the Board make of management to satisfy itself that the financial records of AJX have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of AJX?

In addition to the matters listed in response to question 2 above, the Directors note the following additional information:

- The Audit Committee, which consists of all Directors, met to discuss the financial statements on 20 August 2019 and 29 September 2019. The minutes of these meetings record that the Directors considered and discussed the financial statements, including the key estimates and judgements within them. This included, among other things, the valuation of the Company's intangibles and the going concern assumption (including the forecasts on which it was based).
- The Directors also reviewed and considered the report prepared by Grant Thornton as auditors. The Auditors Report provided that, except for the specific issue forming the basis for the qualified opinion, that the financial report for the Company was in accordance with the Corporations Act 2001 (Cth).

- In respect of the value of the Company's intangible assets, the Board received an independent valuation as noted at question 2 above.
- Taking into consideration all of the above, the Board adopted the financial statements as true and fair.

11. Commenting specifically on the qualified opinion, does the board consider that AJX has a sound system of risk management and internal control which is operating effectively?

The Board continues to hold the view that AJX has a sound system of risk management and internal control, which is operating effectively. The systems of risk management and internal control are appropriate for an entity of AJX's size and nature.

Understanding that intangible assets have a different level of accounting, review and scrutiny; management has designed a system for intangible assets that includes a rigorous review process before any potential intangible asset is added to the balance sheet. The process includes interviews with development and commercial personnel to ensure that the asset qualifies as a development project and it has a future economic benefit. Each asset is defined and tracked in the intangible asset paper managed by the accounting group. Intangible assets are discussed on a monthly basis with management for items such as estimated time and cost to complete along with commercialisation efforts. An external valuation service is used on an annual basis for impairment testing, our auditors have full and direct access to this valuation service for complete transparency.

The Board notes that Grant Thornton's reports in both the current and prior year did not identify any deficiencies, or combination of deficiencies, in internal control, which, in their view, resulted in a reasonable possibility that a material misstatement of the Company's annual or interim financial statements would not be prevented or detected on a timely basis. While we acknowledge that their audit is not a comprehensive review of internal control, we consider their findings to be consistent with the view expressed by the Board.

12. Please confirm that AJX is complying with the Listing Rules and, in particular, Listing Rule 3.1.

We confirm that AJX remains in compliance with the Listing Rules and, in particular, Listing Rule 3.1.

13. Please confirm that AJX's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of AJX with delegated authority from the board to respond to ASX on disclosure matters.

We confirm that AJX's responses to all questions the subject of ASX's queries have been approved by the Board.



8 October 2019

Reference: ODIN08533

Ms Maja McGuire
Company Secretary
Alexium International Group Limited

By email: mmcguire@alexiuminternational.com

Dear Ms McGuire

Alexium International Group Limited ('AJX'): Queries regarding Accounts

ASX refers to:

- A. AJX's full year accounts for the full year ended 30 June 2019 lodged with ASX Market Announcements Platform and released on 30 September 2019 ('Annual Report').
- B. ASX notes that the Independent Auditor's Report attached to the Annual Report ('Auditor's Report') contains a qualified opinion:

“Qualified 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 2019, 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, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial report of Alexium International Group Limited 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 2019 and of its financial performance for the year ended on that date; and*
- b complying with Australian Accounting Standards and the Corporations Regulations 2001.*

Basis for Qualified Opinion

Carrying value of capitalized development costs

The Group's capitalized development costs are carried in the statement of financial position at \$1,684,708. AASB 136 Impairment of Assets requires the entity to perform an impairment test on annual basis to determine the assets recoverable amount. The Directors have performed impairment testing as outlined in Note 12. As at the date of this report, we have been unable to obtain sufficient appropriate audit evidence to support the Directors' assessment that the carrying value of the capitalized development costs do not exceed their recoverable amount. Accordingly, in the event that the carrying value of the assets exceed their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount.

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 Company 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 qualified opinion”

- C. AJX's Corporate Governance Statement for 30 June 2019 lodged on the ASX Market Announcements Platform on 1 October 2019 which provides confirmation that AJX complies with recommendation 4.2 of the ASX Corporate Governance Principles and Recommendations which states:

“The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.”

- D. Listing Rule 12.1 which states:

12.1 The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.

- E. Listing Rule 12.2 which states:

12.2 An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

- F. Listing Rule 19.11A which states:

19.11A If a listing rule requires an entity to give ASX accounts, the following rules apply.

- (a) If the entity controls an entity within the meaning of section 50AA of the Corporations Act or is the holding company of an entity, required by any law, regulation, rule or accounting standard, or if ASX requires, the accounts must be consolidated accounts.*
- (b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.*
- (c) If the listing rule requires audited accounts, the audit must be conducted in accordance with Australian auditing standards by a registered company auditor. If the entity is a foreign entity, the audit may be conducted in accordance with other standards agreed by ASX and may be conducted by an overseas equivalent of a registered company auditor.*
- (d) If the listing rule requires accounts to be reviewed, the review must be conducted in accordance with Australian auditing standards. If the entity is a foreign entity, the review may be conducted in accordance with other standards agreed by ASX. Unless the listing rule says an independent accountant may conduct the review, it must be conducted by a registered company auditor (or, if the entity is a foreign entity, an overseas equivalent of a registered company auditor).*
- (e) If there is a directors' declaration that relates to the accounts, the directors' declaration must be given to ASX with the accounts.*

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- (f) *If there is a +directors' report that relates to the period covered by the +accounts, the +directors' report must be given to ASX with the +accounts.*

Request for Information

In light of the information contained in the Annual Report and the Auditor's Report, and the application of the Listing Rules stated above, please respond to each of the following questions:

1. Is AJX able to confirm that in the Directors' Opinion the Annual Report:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of AJX's financial performance and position?
2. The qualified opinion relates to AJX's capitalized development costs and that the auditors were unable to obtain sufficient appropriate audit evidence to support the Director's assessment that the carrying value of the capitalized development costs do not exceed their recoverable amount. Further, the auditors were of the opinion that in the event that the capitalised development costs exceeded their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount. Please explain how the directors, through the impairment testing described in note 12, satisfied themselves that the capitalized development costs amount of \$1,684,708 is an appropriate value. Further, the Directors should comment whether the values are appropriate and adheres to the current Australian Accounting Standards. In answering this question, reference should be made to the underlying assumptions used by the directors in coming to this conclusion, as well as any independent valuations and the validity of the assumptions upon which these valuations are based.
3. What steps has AJX taken since the release of the Annual Report to obtain an unqualified opinion with regards to its future financial statements?
4. What steps does AJX intend to take to obtain an unqualified audit opinion with regards to its future financial statements?
5. Does AJX consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX as required under listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the AJX's current business activities.
6. Does AJX consider that the financial condition of AJX is sufficient to warrant continued listing on ASX as required under Listing Rule 12.2? In answering this question, please also explain the basis for this conclusion.
7. If the answer to questions 5 or 6 is "No", please explain what steps AJX has taken, or proposes to take, to warrant continued listing on ASX under the requirements of Listing Rules 12.1 and 12.2.
8. In relation to the Annual Report, did the Board receive the CFO and CEO declaration, as described in section 4.2 of AJX's Corporate Governance Disclosure, that in the opinion of the CFO and CEO, the financial records of AJX have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of AJX and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively?
9. If the answer to Question 8 is 'no', why did the Board not receive the CEO and CFO declaration as described in section 4.2 of AJX's Corporate Governance Disclosure?
10. What enquiries did the Board make of management to satisfy itself that the financial records of AJX have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of AJX?

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11. Commenting specifically on the qualified opinion, does the board consider that AJX has a sound system of risk management and internal control which is operating effectively?
 12. Please confirm that AJX is complying with the Listing Rules and, in particular, Listing Rule 3.1.
 13. Please confirm that AJX's responses to the questions above have been authorised and approved under its published continuous disclosure policy or otherwise by its board or an officer of AJX with delegated authority from the board to respond to ASX on disclosure matters.

When and where to send your response

Please note that ASX reserves its right under Listing Rule 18.7A to release this letter and AJX's response to the market. Accordingly, AJX's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under Listing Rule 3.1, a response is requested as soon as possible and, in any event by no later than **3:00 pm AWST Friday, 11 October 2019**.

Any response should be sent to me by return email at ListingsCompliancePerth@asx.com.au. It should not be sent to the ASX Market Announcements Office.

Enquiries

If you have any queries regarding any of the above, please contact me.

Regards

Anjuli Sinniah
Senior Adviser, Listings Compliance (Perth)