



ALEXIUM

Fully Committed \$22.3M Capital Raise

27 November 2019

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Overview of capital raising

Fully committed capital raising of A\$22.3 million to repay existing expensive debt facility and support the company's transition to a high growth performance chemicals company

Strong support from existing and new cornerstone investor	<ul style="list-style-type: none">• Fully funded capital raise demonstrates strong support from existing shareholders and new cornerstone shareholder<ul style="list-style-type: none">○ Several existing major shareholders and new investors have contributed additional capital via the placement component of the raise as well as underwriting the rights issue○ Colinton Capital Partners, a well regarded Australian mid-market growth investor, has committed total funding of up to c.\$10.85 million via equity and a convertible note
Offer structure and size	<ul style="list-style-type: none">• The \$22.3 million capital raise is comprised of:<ul style="list-style-type: none">• 2 for 5 non-renounceable Entitlement Offer at 6.00 cents per share to raise \$8.3 million<ul style="list-style-type: none">• Fully underwritten via underwriting agreements and shareholder undertakings• Fully underwritten placement to institutional and sophisticated investors of \$8.8 million, comprising:<ul style="list-style-type: none">• \$3.075 million placement not subject to shareholder vote• \$5.729 million placement (including management and Board) subject only to shareholder vote• \$5.15 million Convertible Note provided by Colinton Capital Partners<ul style="list-style-type: none">• 6.00% interest, 4 year term• Convertible into ordinary shares at 7.5 cents• Conversion subject to shareholder approval• Ability to increase note if placement to Colinton Capital not approved
Use of Funds	<ul style="list-style-type: none">• Fully retire the current US\$9 million (A\$13.2 million) high-interest bearing debt package• Fund an acceleration of the Alexicool® and Alexiflam® technology growth initiatives• Fund the transaction costs associated with the Equity Raising and Convertible Note• Provide general working capital to fully fund the company's growth strategy
Board Changes	<ul style="list-style-type: none">• Simon Moore, Senior Partner with Colinton Capital Partners, to join Alexium's Board of Directors

Capital raising rationale

The Board and management team view this transaction as an inflection point in Alexium's long term journey

The Company's current capital structure does not support long-term growth

- Current mezzanine debt is very expensive with interest payments of AUD 145k per month
- Near term debt maturity
- No access to growth capital
- Red flag for institutional investors

The capital raise announced today builds a solid foundation for Alexium to drive shareholder value over the long term

- Expensive mezzanine debt is eliminated
- Restructured balance sheet
- Working capital to support strategic growth
- Management focused on execution of growth plans
- New cornerstone strategic investor
- Resources to support faster execution by management
- New long-term institutional and sophisticated investors

Clearly defined pathway to deliver shareholder value

FY11 – FY18 Invest in world leading R&D

- ✓ >US\$25m invested over 7 years to develop unique portfolio of intellectual property
- ✓ Refinement of key products Alexiflam® & Alexicool®

FY19 Foundation for Growth

- ✓ New management team
- ✓ Reset of product /market priorities
- ✓ Commercial advantage proposition for customers
- ✓ Elimination of low margin commodity product sales
- ✓ Supply agreement with major North American mattress brand for Alexicool® products
- ✓ Exclusive development agreement with Pine Belt Processing for Alexiflam® FR NyCo for US military uniforms

FY20 Commercialize world leading technologies

- Commercialize and new revenue from foam application of Alexicool® products
- Finalize product development and commercialize Alexiflam® NF for FR Sock
- Alexiflam® FR NyCo production scale trials for military testing and evaluation

Financial objectives

- Aim for 50% growth on FY19 total revenue
- Gross margin > 30%
- Continue tight control of overhead costs and cashflow
- Balance sheet restructure via capital raise

FY21 Accelerate revenue growth

- Grow Alexicool® sales through innovative product development
- Realize first revenues from Alexiflam® FR sock
- Complete Limited User Evaluation with US military and realize first revenues
- Target international sales via distribution / licensing agreement or direct market entry

Financial objectives

- Accelerate revenue growth rate above FY20 (greater than 50%)
- Gross margin > 30%
- Sustainably EBITDA & cash flow positive

FY22 Deliver meaningful shareholder returns

- Capitalize on globally unique and patent protected product range
- Realise cost benefits of increased scale
- Deliver material growth in earnings & cashflow

Sources and Uses of Funds

Capital raising to fully retire the current debt facility and provide working capital to support long term growth

Debt reduction	The Company intends to use the net proceeds from the \$22.3m proceeds to retire, in full, the current debt facility (US\$9m) . This will also eliminate monthly interest payments of approximately A\$145,000
Working capital	The balance of the funds will be used to provide general working capital to support the Company's growth strategy

Sources of Funds	Full subscription (AUD)	%
Proceeds of Rights Issue	8,339,656	37.4
Proceeds of Placement (1 st Tranche)	3,075,000	13.8
Proceeds of Placement (2 nd Tranche – Subject to shareholder approval)	5,729,000	25.7
Proceeds of Convertible Note	5,150,000	23.1
Total	22,293,656	100.0
Uses of Funds		
Debt reduction ¹	14,000,000	62.8
Working capital ²	7,493,656	33.6
Expenses of the Offer	800,000	3.6
Total	22,293,656	100.0

1. Use of funds estimated as at the date of the Offer and based on an AUD to USD exchange rate of 0.68.
2. Working capital is utilized within the Company to support the Company's growth strategy

Details of the Entitlement Offer

Offer structure and size	<ul style="list-style-type: none">• 2 for 5 pro-rata accelerated non-renounceable entitlement offer to eligible shareholders of Alexium to raise total proceeds of approximately \$8.3 million
Underwriting arrangements	<ul style="list-style-type: none">• The Entitlement Offer is fully underwritten via underwriting agreements and shareholder undertakings
Pricing	<ul style="list-style-type: none">• \$0.06 per New Share, representing a 44.4% discount to the 5-day VWAP before the trading halt 29 October 2019
Capital Structure	<ul style="list-style-type: none">• Current issued Shares: 347,485,663• Entitlement Offer Shares: 138,994,265• Placement Shares: 51,250,000 (Tranche 1)• Total Shares after completion of Offer (excluding Tranche 2): 537,729,928
Participation by Directors and major shareholders	<ul style="list-style-type: none">• Management and Board to invest \$620k
Ranking	<ul style="list-style-type: none">• New Shares issued under the Entitlement Offer and Placement will rank equally with existing fully paid ordinary shares• New Shares under the Placement do not have rights to participate in the Entitlement Offer
Record date	<ul style="list-style-type: none">• Monday, 2 December 2019

Indicative Timetable

Activity	Date
Lodgement of Prospectus with the ASIC	27 November 2019
Lodgement of Prospectus & Appendix 3B with ASX	27 November 2019
Notice sent to Optionholders	27 November 2019
Notice sent to Shareholders	28 November 2019
Ex date	29 November 2019
Record Date for determining Entitlements	2 December 2019
Prospectus sent out to Shareholders & Company announces this has been completed	5 December 2019
Last day to extend Closing Date	11 December 2019
Closing Date*	16 December 2019
Shares quoted on a deferred settlement basis	17 December 2019
ASX notified of under subscriptions	19 December 2019
Issue date/Shares entered into Shareholders' security holdings	23 December 2019
Quotation of Shares issued under the Offer*	24 December 2019
Completion of Tranche 1 of the Placement	24 December 2019
Proposed Shareholder General Meeting	Early January 2020
Completion of Tranche 2 of the Placement	Following shareholder meeting
Closing Date of Cleansing Offer*	15 February 2020
Issue of Shares under Cleansing Offer	16 February 2020

* The Directors may extend these Closing Dates by giving at least 3 Business Days notice to ASX prior to the Closing Date. As such the date the Shares are expected to commence trading on ASX may vary.

Key Risks

Topic	Summary
Introduction	<p>The Shares offered under this Prospectus should be considered speculative because of the nature of the Company's business. There are numerous risk factors involved with the Company's business. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. Accordingly, an investment in the Company carries no guarantee with respect to the payment of dividends, return of capital or price at which securities will trade.</p> <p>The following is a summary of the more material matters to be considered. However, this summary is not exhaustive and potential investors should examine the contents of this Prospectus in its entirety and consult their professional advisors before deciding whether to apply for the New Shares.</p>
Key investment risks	<p>Potential investors should be aware that subscribing for Shares in the Company involves a number of risks. Prospective investors should read this Prospectus in its entirety before deciding whether to apply for Shares under this Prospectus.</p> <p>These risks together with other general risks applicable to all investments in listed securities not specifically referred to, may affect the value of the Shares in the future. Accordingly, an investment in the Company should be considered highly speculative. Investors should consider consulting their professional advisors before deciding whether to apply for Shares pursuant to this Prospectus.</p>
Company Specific	<p>(a) Full year accounts for the period ended 30 June 2019 – qualified opinion The Independent Auditor's Report in connection with the Company's full year accounts for the period ended 30 June 2019 contains a qualified opinion regarding the carrying value of capitalisation development costs. The Company's external auditors were of the opinion that they were unable to obtain sufficient appropriate audit evidence to support the Director's assessment that the carrying value of the capitalised development costs do not exceed their recoverable amount. Further, the external 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.</p> <p>While the Board and Management of the Company have satisfied themselves that the Company's reported capitalised development costs are appropriate, there is risk that the carrying value of the capitalised development costs do exceed their recoverable amount, in which case it would be necessary for the carrying value of the assets to be written down to their recoverable amount.</p> <p>(b) Limited operating history Our current level of operations did not develop until early 2010 and from 2010 until 2013 was focused solely on research and development of our Flame Retardent technology. As a result, our operating history is limited and, accordingly, the revenue and income potential of our business and markets are unproven. Our historical operating results do not provide a meaningful basis for evaluating our business, financial performance and prospects.</p> <p>We also face numerous risks, uncertainties, expenses and difficulties frequently encountered by companies at an early stage of development. Some of these risks and uncertainties relate to our ability to:</p> <ul style="list-style-type: none"> (i) develop new customers or new business from existing customers; (ii) expand the technical sophistication of the products and services we offer; (iii) respond effectively to competitive pressures; and (iv) attract and retain qualified management and employees. <p>We may not meet internal or external expectations regarding our future performance. If we are not successful in addressing these risks and uncertainties, our business, operating results and financial condition may be materially adversely affected.</p>

Key Risks

Topic	Summary
Company Specific	<p>(c) Ability to source chemicals The Company's core business, being the deployment of chemical solutions, requires the Company to source various chemicals. If the Company is unable to continually source such chemicals, it may adversely impact the Company's ability to provide its products to third parties or fulfil any third party contracts. Any such failure would likely have an impact on the Company's revenue.</p> <p>(d) Regulatory risk Some of the raw materials we handle, and our products and facilities, are subject to government regulation. These regulations affect the manufacturing processes, handling, uses and applications of our products. The use and handling of these materials is regulated and some of these regulations require product registrations, which also are subject to renewal and potential revocation. These regulations may affect our ability to market certain chemicals we may produce. There is also a risk that other key raw materials or one or more of our products may be found to have, or be recharacterized as having, a toxicological or health-related impact on the environment or on our customers or employees. If such a discovery or recharacterization occurs, the relevant materials, chemicals or products, including products of our customers incorporating our materials or chemicals, may be recalled or banned or we may incur increased costs in order to comply with new regulatory requirements. Change in regulations, or their interpretation, may also affect the marketability of certain of our products. We cannot predict how these and other findings from regulatory agencies may affect our cash flows or results of operations.</p> <p>(e) Hazardous operations Due to the nature of our business, we are exposed to the hazards associated with chemical manufacturing and the related storage and transportation of raw materials, products and wastes, such as fires, explosions and accidents. These hazards could lead to an interruption or suspension of operations at our manufacturing or distribution partners and have an adverse effect on our company. Other hazards include piping and storage tank leaks and ruptures, mechanical failure, employee exposure to hazardous substances, chemical spills and other discharges or releases of toxic or hazardous substances or gases, inclement weather and natural disasters. These hazards may cause personal injury and loss of life, damage to property and contamination of the environment, which could lead to government fines or work stoppage injunctions and lawsuits by injured persons.</p> <p>(f) Fluctuations in costs and access to supplies of our raw materials We generally purchase raw materials based on supply agreements linked to market prices and therefore our results of operations are subject to short-term fluctuations in raw materials prices. These fluctuations limit our ability to accurately forecast future raw material costs and hence our profitability. Many of the raw materials we use are commodities, and the price of each can fluctuate widely for a variety of reasons, including changes in availability, major capacity additions or reductions or significant facility operating problems. Furthermore, certain of our raw materials, such as flame retardants and dispersing aids, are sourced from countries where political, economic and social conditions may be subject to instability. Any interruption of supply or any price increase of raw materials could result in our inability to meet demand for our products, loss of customer goodwill and higher costs of producing our products.</p> <p>(g) Compliance risk Our operations are subject to extensive environmental, health and safety laws and regulations. In addition, any future production facilities or distribution centres we establish will require operating permits that will be subject to renewal. The nature of the chemicals industry exposes us to risks of liability under these laws and regulations related to the production, storage, transportation, disposal and sale of chemicals and materials that can cause contamination or personal injury if released into the environment. Compliance with environmental laws generally increases the costs of manufacturing, the cost of registration/approval requirements, the costs of transportation and storage of raw materials and finished products, as well as the costs of the storage and disposal of wastes, and could have a material adverse effect on our results of operations. We may incur substantial costs, including fines, damages, criminal or civil sanctions and remediation costs, or experience interruptions in our operations, for violations arising under these laws or permit requirements. Furthermore, environmental laws are subject to change and have tended to become stricter over time. Such changes in environmental laws or their interpretation, or the enactment of new environmental laws, could result in materially increased capital expenditures and compliance costs.</p>

Key Risks

Topic	Summary
Company Specific	<p>(h) Competition risk We face significant competition from major international producers as well as smaller regional competitors. Our most significant competitors include major chemicals and materials manufacturers and diversified companies, a number of which have revenues and capital resources exceeding ours. Within the end-use markets in which we compete, competition between products is intense. Substitute products also exist for many of our products. Therefore, we face substantial risk that certain events, such as new product development by our competitors, changing customer needs, production advances for competing products, price changes in raw materials and products, our failure to secure patents or the expiration of patents (if granted), could result in declining demand for our products as our customers switch to substitute products or undertake manufacturing of such products on their own. If we are unable to develop, produce or market our products to compete effectively against our competitors, our results of operations may materially suffer. We believe that our customers are increasingly looking for strong, long-term relationships with a few key suppliers that help them improve product performance, reduce costs, or support new product development. To satisfy these growing customer requirements, our competitors have been consolidating within product lines through mergers and acquisitions. We may also need to invest and spend more on research and development and marketing costs to strengthen existing customer relationships, as well as attract new customers.</p> <p>(i) Intellectual property risk Our success depends to a significant degree upon our ability to protect and preserve our intellectual property rights, which rights we own or use pursuant to licenses granted to us by third parties. The confidentiality and invention assignment agreements we enter into with most of our key employees and third parties to protect the confidentiality, ownership and use of intellectual property may be breached, may not be enforceable, or may provide for joint ownership or ownership by a third party. In addition, we may not have adequate remedies for a breach by the other party, which could adversely affect our intellectual property rights. The use of our intellectual property rights or intellectual property similar to ours by others or our failure to protect such rights could reduce or eliminate any competitive advantage we have developed, adversely affecting our net sales. If we must sue to protect, defend or enforce our intellectual property rights, any suits or proceedings could result in significant costs and diversion of company resources and management attention, and we may not prevail in such action. In addition, competitors or new market entrants may manufacture products substantially similar to our products. We conduct research and development activities with third parties and license certain intellectual property rights from third parties and we plan to continue to do so in the future. We endeavor to license or otherwise obtain intellectual property rights on terms favorable to us. However, we may not be able to license or otherwise obtain intellectual property rights on such terms or at all. Our inability to license or otherwise obtain such intellectual property rights could have a material adverse effect on our ability to create a competitive advantage and create innovative solutions for our customers, which will adversely affect our net sales and our relationships with our customers.</p> <p>(j) Failure to protect patents and proprietary rights Our future success will depend to a significant extent on our ability to: (i) obtain and keep patent protection for our products and technologies on an international basis; (ii) enforce our patents to prevent others from using our inventions; (iii) maintain and prevent others from using our trade secrets; and (iv) operate and commercialize products without infringing on the patents or proprietary rights of others. We cannot assure you that our patent rights will afford any competitive advantages and these rights may be challenged or circumvented by third parties. Further, patents may not be issued on any of our pending patent applications in the U.S. or abroad.</p>

Key Risks

Topic	Summary
Company Specific	<p>(k) Infringing the intellectual property rights of third parties Although it is our intention to avoid infringing or otherwise violating the intellectual property rights of others, our processes and products may infringe or otherwise violate the intellectual property rights of others. We may be subject to legal proceedings and claims, including claims of alleged infringement by us or any future licensees of the patents, trademarks and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, regardless of the merits of any claim, and could divert our management’s attention from operating our businesses. If we were to discover or be notified that our processes or products potentially infringe or otherwise violate the intellectual property rights of others, we may need to obtain licenses from these parties or substantially re-engineer our products and processes in order to avoid infringement. We might not be able to obtain the necessary licenses on acceptable terms, or at all, or be able to re-engineer our products successfully. Moreover, if we are sued for infringement and lose the suit, we could be required to pay substantial damages and/or be enjoined from using or selling the infringing products or technology. Any of the foregoing could cause us to incur significant costs and prevent us from selling our products.</p> <p>(l) Difficulties managing our growth Our success will depend on our ability to expand and manage our growth. We may not be able to manage our growth or successfully assimilate and train new employees. If we continue to grow, our existing management skills and systems may not be adequate and we may not be able to manage any additional growth effectively. If we fail to achieve any of these goals, there could be a material adverse effect on our business, financial condition or results of operations.</p> <p>(m) Additional requirements for capital We may need additional cash resources due to changed business conditions or other future developments. If these resources are unavailable or insufficient to satisfy our cash requirements, we may seek to sell additional equity or debt securities or obtain a credit facility. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations and liquidity. Our ability to obtain additional capital on acceptable terms is subject to a variety of uncertainties, including: (i) investors’ perception of, and demand for, securities of our company and other companies which operate in our industry; (ii) conditions of the U.S. capital and debt markets and other capital and debt markets in which we may seek to raise funds; (iii) our future results of operations, financial condition, cash flow and actual or forecasted profitability.</p>
General risks	<p>(a) Foreign exchange risk The Company will be exposed to the volatility and fluctuations of the exchange rate between the United States dollar and the Australian dollar. Global currencies are affected by a number of factors that are beyond the control of the Company. These factors include economic conditions in the relevant country and elsewhere and the outlook for interest rates, inflation and other economic factors. These factors may have a positive or negative effect on the Company's exploration, project development and production plans and activities together with the ability to fund those plans and activities.</p> <p>(b) General economic conditions Economic conditions, both domestic and global, may affect the performance of the Company. Factors such as fluctuations in currencies, commodity prices, inflation, interest rates, supply and demand and industrial disruption may have an impact on operating costs and share market prices. The Company's future possible revenues and Share price can be affected by these factors, all of which are beyond the control of the Company or its Directors.</p>

Key Risks

Topic	Summary
General risks	<p>(c) Market conditions Share market conditions may affect the value of the Company's quoted securities regardless of the Company's operating performance. Share market conditions are affected by many factors such as:</p> <ul style="list-style-type: none"> (i) general economic outlook; (ii) introduction of tax reform or other new legislation; (iii) interest rates and inflation rates; (iv) changes in investor sentiment toward particular market sectors; (v) the demand for, and supply of, capital; and (vi) terrorism or other hostilities. <p>The market price of securities can fall as well as rise and may be subject to varied and unpredictable influences on the market for equities in general and resource exploration stocks in particular. Neither the Company nor the Directors warrant the future performance of the Company or any return on an investment in the Company.</p> <p>(d) Change in government policy and legislation Any material adverse changes in relevant government policies or legislation of Australia may affect the viability and profitability of the Company, and consequent returns to investors. The activities of the Company are subject to various federal, state and local laws governing prospecting, development, production, taxes, labour standards and occupational health and safety, and other matters.</p> <p>(e) Taxation The acquisition and disposal of Shares will have tax consequences, which will differ depending on the individual financial affairs of each investor. All potential investors in the Company are urged to obtain independent financial advice about the consequences of acquiring Shares from a taxation viewpoint and generally. To the maximum extent permitted by law, the Company, its officers and each of their respective advisors accept no liability and responsibility with respect to the taxation consequences of subscribing for Shares under this Prospectus.</p> <p>(d) Reliance on key personnel The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment.</p>
Investment Speculative	<p>The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the securities offered under this Prospectus. Therefore, the securities to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.</p>