



ALEXIUM
SPECIALTY CHEMICALS AND SOLUTIONS

Innovation. Growth. Leadership.

ANNUAL REPORT

2016

Alexium International Group Limited

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COMPANY DIRECTORY

DIRECTORS:

Mr Gavin Rezos
Mr Craig Smith-Gander
Mr Nicholas Clark
Mr Craig Metz
Brigadier General Stephen Cheney

COMPANY SECRETARY:

Mr Kevin Kye

**REGISTERED AND
PRINCIPAL OFFICE:**

Level 11
125 St Georges Tce
Perth WA 6000
Telephone: +61 8 9384 3160
Facsimile: +61 8 6314 1623

AUDITORS:

Grant Thornton Audit Pty Ltd
Level 1, 10 Kings Park Rd
West Perth WA 6005

SHARE REGISTRY:

Computershare Investor Services Pty Ltd
Level 11
172 St Georges Terrace
Perth WA 6000
Telephone: 1300787575
Facsimile: +61 8 9323 2033

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

OTCQX : Ticker Code AXXIY

DIRECTORS' REPORT

30 September 2016

Dear Shareholders,

Alexium's performance in fiscal year 2016 shows significant progress as the Company has grown and captured market share through innovation, product excellence, and customer service. The successful execution of our strategies, which included the establishment of a broader footprint, development of new products, and expansion into new industries puts us in a leadership position in the specialty chemicals sector.

Despite recent global economic challenges, the chemical industry is experiencing steady growth. According to the American Chemistry Council, global production in this industry increased by 2.8% in 2015, and is forecast to advance by 3.3% in 2016 and 3.7% in 2017.

While we look to capitalize on these forecasts, we are encouraged by the tailwinds in the U.S. regulatory and legislative arenas. At the municipal, state and federal levels, laws and statutes are being introduced and passed to limit, if not prohibit, the use of legacy flame retardant chemicals that are known to be unsafe for human use and for the environment.

Our Chief Executive Officer, Nick Clark, has been a highly visible and compelling advocate for Alexium and its innovative chemistries at the highest level. He meets regularly with legislators in the U.S. Capitol, Defense Department officials, policy makers, and industry groups to advance both the knowledge of and the need for responsible flame retardant chemistries across a wide spectrum of industries. We will continue to monitor these important bellwether developments.

Alexium's leadership is also evident in the development of two major new technologies and industry recognition. Alexicool is a phase change material that provides a cool-to-the-touch feel for fabrics that retain heat, and this innovative chemistry is now being sold in the U.S and overseas. Alexiflam NF, a revolutionary chemical solution providing flame retardancy to cotton and cotton-blends is superior to similar chemistries now on the market, and it was just recently launched for sale in Europe.

DIRECTORS' REPORT (cont.)

In early March, Alexium was recognized as one of FabricLink's Top 10 Textile Innovations for 2015-2016 for Alexiflam-Crockban, an environmentally friendly treatment to inhibit crocking (the amount of dye transfer between surfaces). Alexium is an active participant in industry symposia and conferences, and with our elevated industry profile and concerted outreach, we are seeing increasing visibility for the company.

As Alexium has grown its product line, its targeted industries and geographic reach have expanded as well. In bedding, home furnishings, outdoor and other industries, Alexium is positioned as a trusted solutions provider and partner, and its success in implementing a global network over the past year has resulted in distribution in Europe, the Middle East, South America, Asia, Australia and New Zealand.

For our loyal investors, Alexium's position as an innovative technology-focused, growth company with a unique focus is being rewarded: earlier this year, AJX was added to the S&P/ASX 300, and Moelis & Company initiated coverage of Alexium with a rating of "buy."

We are pleased with 2016 results and are optimistic and confident about the future of Alexium. On behalf of our Board of Directors, our management team and our employees, I thank you for your continued support.

Sincerely,



Gavin Rezos

Chairman

Alexium International Group Limited



DIRECTORS' REPORT (cont.)

HIGHLIGHTS FOR THE YEAR INCLUDE:

JULY 2015

- iTextiles and Alexium Formally Commence Sales Partnership;
- Further Orders Received In Home Furnishings Sector;
- Work Commences on Outdoor Industrial Fabric Market with PO;

AUGUST 2015

- Purchase Order Received for Second Military Scale Up;
- Alexium Invited to Present at Jefferies Conference In NY;
- Major Bedding Customer Increases Orders;
- Alexium Expands its Staff in Key Roles;
- Further Purchase Orders Received by Major Bedding Client;
- Alexium Invited to Attend Key Military Conference;

SEPTEMBER 2015

- Key staff added for 2016 growth strategy;
- Murdock Webbing Announces Alexium as New Provider of FR Chem;
- First Full Large Scale Production Order Received;

OCTOBER 2015

- Key Representation by Alexium Sales Team at IFAI;
- Successful conference leads to increased sales leads;
- PO Received in New Market (Plastics) Ahead of Schedule;
- Alexium Wins New Client With Second Major Bedding Brand;
- Grant Extension Awarded With Israel Chemicals Ltd (ICL);
- US DoD Selects Alexium as Key Partner for New FR Uniform;

NOVEMBER 2015

- First order received in FR plus Durable Water Repellant DWRv;
- Results from European Automotive Fabric Supplier;

DIRECTORS' REPORT (cont.)

FEBRUARY 2016

- Alexium enters into Partnership with VLS;
- Alexium Secures New business and PO in Interior Furnishings;
- Global Distribution Partnership Secured in Brazil;

MARCH 2016

- Alexium / Cowen Partnership;
- Extension of Further Business with Murdock Webbing;
- Updated presentation - AJX presents at ASX Spotlight in NYC;
- S&P DJ Indices Announces March Quarterly Review;
- Sales Increase to 18 (Eighteen) New Customers;
- Washington DC Mayor Passes Bill Into Law Banning Toxic FR;
- Alexium Wins New Client and Expands into New Market;

APRIL 2016

Moelis Initiate Coverage on Alexium;

Alexium Continues to Grow and Secures more Client Work;

Alexium Successfully Completes Institutional Placement;

MAY 2016

- Sales Commence with New Client in Epoxy Fiberglass;
- Alexium Wins USD\$5 Million Multi-Year Sales Agreement;

JUNE 2016

- Alexium Secures Distribution for Sale into Australia;

JULY 2016

- Alexium Secures Long Term Work with Tenting Manufacturer;

AUGUST 2016

- Alexicool sale of 1.7M for Calendar Year 2016;
- Second half year sales increase with two new clients;

SEPTEMBER 2016

- Continued growth as purchase orders roll in;
- Sales agreement finalized and supply commences;

DIRECTORS' REPORT (cont.)

Your Directors submit their report together with the financial report of Alexium International Group Limited ("the Group") for the year ended 30 June 2016:

DIRECTORS

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

MR GAVIN REZOS B.Juris, LLB, BA, Executive Chairman

Mr Rezos has extensive Australian and international investment banking experience and is a former Investment Banking Director of HSBC Group with regional roles during his HSBC career based in London, Sydney and Dubai. Mr Rezos has held Chief Executive Officer positions and executive directorships of companies in the technology sector in Australia, the United Kingdom, the US and Singapore and was a Non-Executive Director of Rowing Australia, the peak Olympic sports body for rowing in Australia from 2009 until 2014. He is currently a Non-Executive Director of Iluka Resources Limited, Resource and Energy Group Limited, Department 13 International Limited and a Principal of Viaticus Capital LLC.

MR CRAIG SMITH-GANDER BA (Military), M.Com, Non-executive Director

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

MR NICHOLAS CLARK BEc, LLB, MBA, CPA, Executive Director and CEO

Mr Clark was appointed to the board on March 18 2013. Mr Clark originally commenced with Alexium International as the Group's CFO and Company Secretary until March 2013. Mr Clark has extensive experience in executive management, mergers and acquisitions globally. He has held roles such as Deputy Head, Mergers and Acquisitions, Head of Foreign Investments, and Head of Commercial and Contract Services. Mr Clark is also on the Board of American Security Project.

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

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

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

General Cheney is the former Inspector General of the Marine Corps and Commanding General of Parris Island Marine Base. He is also the former Deputy Executive Secretary to US Defense Secretary Dick Cheney under President George H.W. Bush. He currently sits on Secretary of State John Kerry's Foreign Affairs Policy Board. General Cheney was appointed to the board on 13 April 2015.

DIRECTORS' REPORT (cont.)

Directorships of other listed companies during the last 3 years

NAME	COMPANY	COMMENCED	CEASED
Mr Gavin Rezos	Iluka Resources Ltd	20 June 2006	-
	Department 13 International Ltd	18 December 2015	-
	Resource and Energy Group Ltd	21 April 2016	-
Mr Craig Smith-Gander	None	-	-
Mr Nicholas Clark	None	-	-
Mr Craig Metz	None	-	-
Brigadier General Stephen Cheney	None	-	-

Interests in the shares and options of the Company

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

Name	Number of ordinary shares	Number of Performance shares	Number of options over ordinary shares
Mr Gavin Rezos	25,400,000	1,250,000	-
Mr Craig Smith-Gander	1,460,166	-	1,500,000
Mr Nicholas Clark	9,025,320	2,000,000	-
Mr Craig Metz	-	-	750,000
Brigadier General Stephen Cheney	43,000	-	750,000

COMPANY SECRETARY

Mr Kevin Kye was appointed company secretary on 11 November 2015.

PRINCIPAL ACTIVITY

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

RESULTS AND REVIEW OF OPERATIONS

The Group's net loss attributable to members of the Group for the financial year ended 30 June 2016 was \$15,444,871 (2015: \$11,763,566).

As at 30 June 2016 the cash position was \$11,218,556 (2015: \$11,621,603) and the Group had 298,736,791 ordinary shares on issue (2015: 261,350,490).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by \$10,271,083 (from \$41,363,396 to \$51,634,479) as the result options converted to shares of \$3,906,113 and capital raisings of \$6,000,000 less capital raising costs of \$369,000. There was also \$733,970 of shares issued in lieu of salary and services.

DIRECTORS' REPORT (cont.)

DIVIDENDS

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

UNISSUED SHARES UNDER OPTION

Unissued shares

As at the date of this report there were 16,449,024 unissued ordinary shares under option (2015: 29,825,000). Details of these options are as follows:

Date Options Granted	Expiry Date	Exercise price of shares	Number under option
30 November 2012	31 December 2016	\$0.08	1,500,000
10 November 2014	9 November 2016	\$0.25	863,648
10 November 2014	9 November 2017	\$0.198	750,000
1 September 2014	31 August 2017	\$0.18	175,000
13 May 2015	31 December 2017	\$0.70	500,000
13 May 2015	31 December 2017	\$0.80	1,000,000
20 May 2015	31 August 2017	\$0.13	30,000
6 May 2015	7 May 2018	\$0.75	6,916,626
6 August 2015	31 August 2017	\$0.16	620,000
1 October 2015	30 September 2020	\$0.75	1,500,000
4 November 2015	31 August 2017	\$0.18	1,125,000
9 November 2015	9 November 2017	\$1.207	125,000
9 November 2015	9 November 2017	\$1.314	125,000
26 February 2016	31 August 2017	\$0.20	1,218,750
			<u>16,449,024</u>

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Group. 1,000,000 options were exercised at \$0.08 (2015: 750,000), 1,470,000 options were exercised at \$0.13 (2015: Nil), 9,124,520 options were exercised at \$0.15 (2015: 2,770,000), 880,000 options were exercised at \$0.16 (2015: Nil), 650,000 options were exercised at \$0.18 (2015: 300,000), 281,250 options were exercised at \$0.20 (2015: 750,000), 4,066,352 options were exercised at \$0.25 (2015: 1,570,000), 500,000 options were exercised at \$0.70 (2015: Nil), 883,374 options were exercised at \$0.75 (2015: Nil). Nil options were forfeited during the year (2015: 750,000) and 770,480 options expired during the year (2015: Nil). During the year 6,250,000 options were issued (2015: 18,300,000).

The group has 3,250,000 performance rights on issue (2015: 8,500,000). The performance rights were granted on 09 November 2015 and were subject to ASX approved performance criteria. The terms and conditions of the performance rights are detailed in Note 15(c).

AFTER BALANCE DATE EVENTS

Since 30 June 2016, 350,000 \$0.16 options, 83,333 \$0.25 options have been converted.

DIRECTORS' REPORT (cont.)

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group's efforts have focused on specialty chemical solutions for a broad range of military and commercial applications. In addition to enhancements to its patented Reactive Surface Treatment (RST), major developments have been made in stand-alone specialty chemical solutions for flame retardant (FR) applications which provide an environmentally friendly technology that satisfies significant market gaps.

The Group has focused on specific applications where its specialty chemicals solutions can clearly enable new value-added products. The Group has a suite of proprietary commercial chemistries: Alexiflam FR, Alexiflam SYN, Alexiflam NF, Alexicool, Alexiflam PB and Alexiflam AD. The Group is focused on extending these existing technologies to quickly address market needs and generate revenues. To this end, the Group has made a dedicated approach in the commercial sector in several key areas: home furnishings (including bedding and decorative), transportation (automotive and public transit), outdoor (tenting, awnings, outdoor furniture), work wear and coatings/polymers.

In addition to our commercial sector efforts, the Group has a robust strategy for the military sector, both domestically and worldwide. Military textile programs worldwide are largely based on either 50/50 nylon-cotton (predominantly for uniforms) or 100% nylon (for protective covers, tenting, etc.), and the Group has developed durable, cost-effective solutions for both. Alexium continues to make significant progress in executing its strategy to replace incumbents of several major government programs such as Flame Resistant Army Combat Uniform (FR ACU) by approaching the market from multiple angles including major prime suppliers and Tier 2 suppliers; the Group is also participating in all submissions with multiple vendors and working with government agencies to promote Alexium's environmentally friendly technology. This work will be in addition to the Group's continuing work on Reactive Surface Treatments in the areas of chem-bio, understanding that each award is made on a competitive basis and subject to transition periods.

To demonstrate the desired performance on both laboratory as well as production level product, the Group has maintained an operation in Greer, South Carolina and is moving to a new, larger facility (also in Greer, South Carolina) in fall 2016. With this infrastructure and by teaming with development partners, the Group has focused on creating and selling production ready technologies.

As in the past, it is expected that the additional development work and extensions and improvements to the existing technology will generate new patent applications, thereby extending patent protection. This near-term focus is balanced and guided by long-term innovation and business strategies that will address future trends and create future commercial opportunities. The Group's strategy is to expand the development of environmentally-friendly FR alternatives, as topical finishes or polymer additives, and to continue to offer the capability to apply smart surface treatments using organic-inorganic hybrid nano-composite coatings, and low temperature curing solutions.

ENVIRONMENTAL ISSUES

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. 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. For the period 1 July 2015 to 30 June 2016 the Directors have asserted that there are no current reporting requirements, but may be required to do so in the future.

DIRECTORS' REPORT (cont.)

REMUNERATION REPORT - AUDITED

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

DIRECTOR AND EXECUTIVE DETAILS

The Directors of Alexium International Group Limited during the year were:

- Mr Nicholas Clark - Executive Director and CEO
- Mr Gavin Rezos - Executive Chairman
- Mr Craig Smith - Gander – Non Executive Director
- Mr Craig Metz – Non Executive Director
- Brigadier General Stephen Cheney – Non Executive Director

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

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

REMUNERATION POLICY

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

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

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

DIRECTORS' REPORT (cont.)

BASE SALARY

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

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

INCENTIVE PLANS

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

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

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

NON-EXECUTIVES

In view of the significant contribution of the Non-Executive Directors and advancing the interest in the Group by international networking, options may be issued to new Non-Executive Directors upon joining the Board. It is not considered that this will significantly affect their independence in light of their international reputation. The Non-Executive remuneration limit is \$250,000, being the initial fee allowed under clause 13.8 of the constitution approved by shareholders on 27 May 2008. Non-Executive Directors do not receive any other retirement benefits other than a superannuation guarantee contribution required by Australian government regulation, which is currently 9.5% of their fees.

TERMS OF EXECUTIVE SERVICE AGREEMENTS

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

Mr Gavin Rezos, Executive Chairman

- Term: the initial term of the Service Agreement was 12 months from 29 March 2010.
- Salary: A salary of US \$165,000 per year (inclusive of director's fees). In accordance with the Executive Services contract executed in 2014, the Group may also pay Mr Rezos additional remuneration in the form of a performance-based bonus over and above the salary.
- Termination: Mr Rezos may terminate the Service Agreement without cause upon giving 9 months written notice to the Group or 3 months notice should the Group so elect. The Group may at its sole discretion terminate the employment without cause by giving 3 months written notice to Mr Rezos and making a payment of 9 months' salary after the expiry of the 3 months written notice period.

Mr Nicholas Clark, Executive Director and CEO

- Place of Work: Washington DC, United States of America.
- Salary: In accordance with the Executive Services contract executed in 2014, a salary of US\$300,000 per year (inclusive of director's fees) plus reasonable relocation costs.

DIRECTORS' REPORT (cont.)

- Termination: Mr Clark may terminate the Service Agreement without cause upon giving 6 months written notice to the Group. The Group may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Clark or make a payment of 6 months salary in lieu of notice.

Mr Craig Smith-Gander, Non-Executive Director

- Mr Smith-Gander has a letter of appointment.
- Place of Work: Perth, Western Australia.
- Salary: A salary of US\$61,000 per year (inclusive of director's fees).
- Termination: Mr Smith-Gander may terminate the Service Agreement without cause.

Mr Craig Metz, Non-Executive Director

- Mr Metz has a letter of appointment.
- Place of Work: Washington DC, United States of America.
- Salary: A salary of US\$27,000 per year (inclusive of director's fees).
- Termination: Mr Metz may terminate the Service Agreement without cause.

Brigadier General Stephen Cheney, Non-Executive Director

- General Cheney has a letter of appointment.
- Place of Work: Washington DC, United States of America.
- Salary: A salary of US\$27,000 per year (inclusive of director's fees).
- Termination: General Cheney may terminate the Service Agreement without cause.

Dr Dirk Van Hyning, President

- Term: the initial term of the Service Agreement is 12 months commencing on 26 April 2013 and thereafter on 6 months' notice from either party;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A salary of US\$170,000 per year.
- Termination: Mr Van Hyning may terminate the Service Agreement without cause upon giving 6 months written notice to the Group. The Group may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Van Hyning or make a payment of 6 months salary in lieu of notice.

Dr Bob Brookins, Vice President of Research and Development

- Term: the initial term of the Service Agreement is 12 months commencing on 1 August 2011 and thereafter on 6 months' notice from either party;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A salary of US\$145,600 per year.
- Termination: Mr Brookins may terminate the Service Agreement without cause upon giving 6 months written notice to the Group. The Group 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: the initial term of the Service Agreement is 12 months commencing on 8 December 2014 and thereafter on 6 months' notice from either party;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A salary of US\$120,000 per year.
- Termination: Mr Krech may terminate the Service Agreement without cause upon giving 6 months written notice to the Group. The Group may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Krech or make a payment of 6 months salary in lieu of notice.

DIRECTORS' REPORT (cont.)

Remuneration of Key Management Personnel during the year

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

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

(1) On 9 November 2015, shareholders approved the issue of 1.25 million Performance Rights, subject to vesting condition.

(2) On 9 November 2015, shareholders approved the issue of 2 million Performance Rights, subject to vesting condition.

(3) On 9 November 2015, shareholders approved the issue of 125,000 options exercisable at \$1.2072 and 125,000 options exercisable at \$1.314 expiring 9 November 2017.

(4) On 18 August 2015, shareholders approved the issue of 750,000 options, respectively to Mr Craig Metz and Brigadier General Stephen Cheney, exercisable at \$0.75 expiring 30 September 2020.

(5) On 9 November 2015, shareholders approved the issue of 156,144 shares, respectively to Mr Gavin Rezos and Mr Nicholas Clark.

(6) As at 30 June 2016, \$178,067 (US\$132,500) remains unpaid and payable to Mr Gavin Rezos.

(7) As at 30 June 2016, \$268,781 (US\$200,000) remains unpaid and payable to Mr Nicholas Clark.

(8) Includes housing and motor vehicle allowance which some of allowance expect to cease during FY2017.

(9) Includes legal and relocation expenses reimbursement in accordance with the Executive Services contract executed in 2014.

DIRECTORS' REPORT (cont.)

2015	Short-term benefits				Post employment super-annuation	Share-based payments Shares	Share-based payments Options	Share-based payments Performance rights	Total
	Salary and fees	Bonus	Medical benefits	Other					
<i>Directors</i>	\$	\$	\$	\$	\$	\$	\$	\$	\$
Mr G Rezos	129,753	-	-	-	-	100,000	-	77,619	307,372
Mr C Smith-Gander	27,653	-	-	-	2,627	-	93,904	-	124,184
Mr N Clark	247,048	-	19,665	122,372	-	100,000	-	93,143	582,228
Mr C Metz	19,097	-	-	-	-	-	-	-	19,097
Brig. Gen. S Cheney	7,068	-	-	-	-	-	-	-	7,068
<i>Total Directors</i>	430,619	-	19,665	122,372	2,627	200,000	93,904	170,762	1,039,949
<i>Executives</i>									
Dr D V Hyning	151,619	-	20,580	-	-	-	-	16,787	188,986
Mr S Susta	40,782	-	3,072	-	-	-	(6,774)	-	37,080
Mr B Brookins	161,667	-	18,652	-	-	-	-	16,445	196,764
Mr A Krech	-	-	-	-	-	-	-	-	-
<i>Total Executives</i>	354,068	-	42,304	-	-	-	(6,774)	33,232	422,830
<i>Total Directors and Executives</i>	784,687	-	61,969	122,372	2,627	200,000	87,130	203,994	1,462,779

DIRECTORS' REPORT (cont.)

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

The Directors and Executives of the Group were issued with the following share-based remuneration during the year:

(1) Options

1,750,000 Options (2015: 750,000) with a value of \$959,030 (2015: \$93,904)

(2) Shares

312,288 shares (2015: 1,329,788) with a value of \$279,280 in lieu of salary (2015: \$345,745).

(3) Performance Rights

3,250,000 Performance Rights were issued (2015: 6,600,000) with a value of \$395,850 (2015: \$360,360).

Options

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

Name	2016			2015		
	Granted in year	Value of options exercised in year	Lapsed in year	Granted in year	Value of options exercised in year	Lapsed in year
	\$ (A)	\$ (B)	\$(C)	\$ (A)	\$ (B)	\$(C)
Directors						
Mr G Rezos	-	-	-	-	-	-
Mr N Clark	-	-	-	-	-	-
Mr C Smith-Gander	43,446	680,000	-	93,305	-	-
Mr C Metz	457,792	-	-	-	-	-
Brig. Gen. S Cheney	457,792	-	-	-	-	-
Executives						
Mr D Van Hyning	-	-	-	-	-	-
Mr B Brookins	-	1,970,000	-	-	-	-
Mr A Krech	-	-	-	-	-	-
TOTAL	959,030	2,650,000	-	93,305	-	-

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

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

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

DIRECTORS' REPORT (cont.)

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

2016

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

2015

Name	Number of options granted during 2015	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2015
<i>Directors</i>							
Mr G Rezos	-	-	-	-	-	-	-
Mr C Metz	-	-	-	-	-	-	-
Mr C Smith-Gander	750,000	10/11/14	10/11/14	\$0.1244	\$0.198	9/11/17	750,000
Mr N Clark	-	-	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-	-	-
<i>Executives</i>							
Mr D Van Hyning	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr S Susta	-	-	-	-	-	-	-
Total	750,000						750,000

The options issued to Key Management Personnel vested immediately with no service or performance conditions. The primary purpose of the grant of the option is to provide a performance linked incentive component in the remuneration package to motivate and rewards the performance of role as the directors. The grant of the options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Group to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to directors.

DIRECTORS' REPORT (cont.)

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

2016

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

2015

Name	Balance at start of year	Granted during year as remuneration	Exercised during year	Other changes during year	Balance at end of year	Options Vested and exercisable at end of year
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	6,500,000	-	-	(2,500,000)	4,000,000	4,000,000
Mr C Smith-Gander	1,500,000	750,000	-	-	2,250,000	2,250,000
Mr N Clark	2,000,000	-	-	(2,000,000)	-	-
Mr C Metz	-	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-	-
Total Directors	10,000,000	750,000	-	(4,500,000)	6,250,000	6,250,000
Executives						
Mr S Susta	3,500,000	-	(750,000)	(750,000)	2,000,000	2,000,000
Dr D Van Hyning	-	-	-	-	-	-
Dr B Brookins	3,000,000	-	-	-	3,000,000	3,000,000
Total Executives	6,500,000	-	(750,000)	(750,000)	5,000,000	5,000,000
Total Directors and Executives	16,500,000	750,000	(750,000)	(5,250,000)	11,250,000	11,250,000

DIRECTORS' REPORT (cont.)

Shares

The value of shares issued during the year was \$279,280 (2015: \$345,745) which was calculated based on issue price of AUD\$0.8943 and was approved at the 2015 Annual General Meeting on 9 November 2015. The issue price represents volume weighted average closing price of shares on ASX in the 20 trading days immediately prior to date of 2015 Notice of Annual General Meeting.

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

2016

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

DIRECTORS' REPORT (cont.)

2015

Name	Balance at start of year Ordinary Shares	Granted During the Year as Remuneration in lieu of salary	Received during year on conversion of performance rights	Received during year on exercise of options	Other changes during year Ordinary Shares	Balance at end of year Ordinary Shares
	Number	Number	Number	Number	Number	Number
Directors						
Mr G Rezos	18,654,866	664,894	2,500,000	-	355,240	22,175,000
Mr C Smith-Gander	585,166	-	-	-	30,000	615,166
Mr N Clark	2,099,900	664,894	3,000,000	-	55,206	5,820,000
Mr C Metz	-	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-	-
Total Directors	21,339,932	1,329,788	5,500,000	-	440,446	28,610,166
Executives						
Mr S Susta ¹	-	-	-	-	-	-
Dr D Van Hyning	-	-	400,000	-	-	400,000
Dr B Brookins	-	-	600,000	-	-	600,000
Total Executives	-	-	1,000,000	-	-	1,000,000
Total Directors and Executives	21,339,932	1,329,788	6,500,000	-	440,446	29,610,166

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	2016			2015		
	Granted during the year \$ (A)	Value of performance rights vested in year \$ (B)	Lapsed in year \$(C)	Granted in year \$ (D)	Value of performance rights granted in year \$ (B)	Lapsed in year \$(C)
Directors						
Mr G Rezos	152,250	1,775,000	-	136,500	57,750	-
Mr N Clark	243,600	2,130,000	-	163,800	69,300	-
Mr C Smith-Gander	-	-	-	-	-	-
Mr Craig Metz	-	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-	-
Executives						
Mr D Van Hyning	-	-	-	32,760	9,240	-
Mr B Brookins	-	-	-	27,300	13,860	-
Mr S Susta	-	-	-	-	-	(18,480)
TOTAL	395,850	3,905,000	-	360,360	150,150	(18,480)

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

DIRECTORS' REPORT (cont.)

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

(C) The value of the performance rights that lapsed during the year represents the benefit forgone and is calculated at the date the performance rights lapsed.

D) The value of performance rights granted in the year is based on the closing share price on 10 November 2014 \$0.26 with a probability discount of 70% and an unlisted status discount of 30% being applied.

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

2016

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

2015

Name	Number of performance rights granted during 2015	Grant date	Vesting date ⁽¹⁾	Fair value per performance right at grant date (\$)	Price payable on vesting per performance right (\$)	Expiry date ⁽²⁾	Number of performance rights vested during 2015
Directors							
Mr G Rezos	2,500,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	2,500,000
Mr C Smith-Gander	-	-	-	-	-	-	-
Mr N Clark	3,000,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	3,000,000
Mr C Metz	-	-	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-	-	-
Executives							
Mr D Van Hyning	600,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	400,000
Mr B Brookins	500,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	600,000
Mr S Susta	-	-	-	-	-	-	-
Total	6,600,000						

(1) Vesting date assumed by Directors.

(2) Expiry date if vesting conditions not met

DIRECTORS' REPORT (cont.)

The service and performance conditions of the performance rights include satisfying the performance milestones as detailed in the Notice of Annual General Meeting approved by the shareholders on 10 November 2015. The performance milestones include share price appreciation and meeting business targets set by the board including revenue and other business development objectives. The number of performance rights in the Group held during the financial year by each Key Management Personnel, including their personally related parties, is set out below. 3,250,000 performance rights were granted during the reporting year as compensation (2015: 6,600,000).

2016

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

DIRECTORS' REPORT (cont.)

2015

Name	Balance at start of year Performance Rights	Granted During the Year as Remuneration	Vested and Converted to Shares during year	Other changes during year Performance Rights	Balance at end of year Performance Rights
	Number	Number	Number	Number	Number
Directors					
Mr G Rezos	2,500,000	2,500,000	(2,500,000)	-	2,500,000
Mr C Smith-Gander	-	-	-	-	-
Mr N Clark	3,000,000	3,000,000	(3,000,000)	-	3,000,000
Mr C Metz	-	-	-	-	-
Brig. Gen. S Cheney	-	-	-	-	-
Total Directors	5,500,000	5,500,000	(5,500,000)	-	5,500,000
Executives					
Dr D Van Hyning	400,000	600,000	(400,000)	-	600,000
Dr B Brookins	600,000	500,000	(600,000)	-	500,000
Mr S Susta	800,000	-	-	(800,000)	-
Total Executives	1,800,000	1,100,000	(1,000,000)	(800,000)	1,100,000
Total Directors and Executives	7,300,000	6,600,000	(6,500,000)	(800,000)	6,600,000

END OF REMUNERATION REPORT

DIRECTORS' REPORT (cont.)

DIRECTORS' MEETINGS

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

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

Board Member	Board Meetings held while Director	Attended	Circular Resolutions Passed	Total
Gavin Rezos	7	7	0	7
Craig Smith-Gander	7	7	0	7
Nicholas Clark	7	7	0	7
Craig Metz	7	6	0	6
Brigadier General Stephen Cheney	7	7	0	7

Dates of Formal Board Meetings and Circulating Resolutions.

Board Meetings
5 August 2015
25 September 2015
4 November 2015
7 February 2016
24 February 2016
30 March 2016
2 May 2016

INSURANCE OF OFFICERS

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

PROCEEDINGS ON BEHALF OF THE GROUP

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

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

ROUNDING OFF OF AMOUNTS

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

DIRECTORS' REPORT (cont.)

INDEMNITY OF AUDITORS

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

NON-AUDIT SERVICES

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

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 26 of the financial report.

Dated this 30th day of September 2016.

Signed in accordance with a resolution of the directors.



Gavin Rezos
Executive Chairman

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**Auditor's Independence Declaration
To the Directors of Alexium International Group Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Alexium International Group Limited for the year ended 30 June 2016, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Hillgrove
Partner - Audit & Assurance

Perth, 30 September 2016

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 2016

		Consolidated	
		2016	2015
	Note	\$	\$
Revenue	3	3,001,203	59,190
Cost of sales		(3,363,839)	(41,296)
Gross Profit		(362,636)	17,894
Other Income	3	412,701	326,446
Administrative expenses	4	(11,543,631)	(4,834,353)
Research and development costs		(1,984,423)	(859,326)
Impairment of intangible assets		-	(225,908)
Other expenses		(2,010,910)	(1,144,348)
		(15,488,899)	(6,719,595)
Finance costs -			
Loss from embedded derivative		-	(4,674,520)
Interest and amortisation of cost of raising convertible notes		-	(399,263)
Interest received	3	44,028	29,812
Loss before tax		(15,444,871)	(11,763,566)
Tax expense	6	-	-
Loss for the year after tax		(15,444,871)	(11,763,566)
Exchange differences on translation of foreign operations		459,291	1,009,782
Total comprehensive loss for the year		(14,985,580)	(10,753,784)
Loss for the year attributable to members of the group		(15,444,871)	(11,763,566)
Total comprehensive loss for the year attributable to members of the group		(14,985,580)	(10,753,784)
Basic loss per share (cents)	7	(6.97)	(5.78)
Diluted loss per share (cents)	7	(6.97)	(5.78)

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 2016

		Consolidated	
	Note	2016	2015
		\$	\$
Current Assets			
Cash and cash equivalents	19(a)	11,218,556	11,621,603
Trade and other receivables	8	191,762	119,277
Other assets	9	1,747,538	170,430
Total Current Assets		<u>13,157,856</u>	<u>11,911,310</u>
Non-Current Assets			
Other financial assets		37,094	7,834
Property, plant and equipment	10	816,738	514,619
Intangible assets	11	148,454	184,847
Total Non-Current Assets		<u>1,002,286</u>	<u>707,300</u>
Total Assets		<u>14,160,142</u>	<u>12,618,610</u>
Current Liabilities			
Trade and other payables	12	2,788,092	638,484
Provisions		67,606	56,613
Other liabilities - deferred income	13	18,365	116,676
Total Current Liabilities		<u>2,874,063</u>	<u>811,773</u>
Non-Current Liabilities			
Trade and other payables		18,549	-
Total Non-Current Liabilities		<u>18,549</u>	<u>-</u>
Total Liabilities		<u>2,892,612</u>	<u>811,773</u>
Net Assets / Liabilities		<u>11,267,530</u>	<u>11,806,837</u>
Equity			
Contributed equity	15	51,634,479	41,363,396
Reserves	17	9,051,563	4,417,082
Accumulated losses	18	(49,418,512)	(33,973,641)
Total Equity		<u>11,267,530</u>	<u>11,806,837</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 2016

	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2015	41,363,396	4,417,082	(33,973,641)	11,806,837
Loss for the year	-	-	(15,444,871)	(15,444,871)
Foreign currency translation	-	459,291	-	459,291
Total comprehensive loss for the year	-	459,291	(15,444,871)	(14,985,580)
Transactions with owners in their capacity as owners:				
Issued capital	6,000,000	-	-	6,000,000
Capital raising costs	(369,000)	-	-	(369,000)
Options exercised	3,906,113	-	-	3,906,113
Share-based payment	454,690	4,175,190	-	4,629,880
Shares issued in lieu of salary	279,280	-	-	279,280
Balance at 30 June 2016	51,634,479	9,051,563	(49,418,512)	11,267,530

Balance at 1 July 2014 (as reported) correction of prior period errors	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance as reported	24,773,640	523,678	(15,942,775)	9,354,543
Adjustments on correction	31,699	(74,196)	(6,267,300)	(6,309,797)
Balance as restated	24,805,339	449,482	(22,210,075)	3,044,746
Loss for the year	-	-	(11,763,566)	(11,763,566)
Foreign currency translation	-	1,009,782	-	1,009,782
Total comprehensive loss for the year	-	1,009,782	(11,763,566)	(10,753,784)
Transactions with owners in their capacity as owners:				
Issued capital	15,199,593	1,640,317	-	16,839,910
Capital raising costs	(809,281)	-	-	(809,281)
Options exercised	1,822,000	2,000	-	1,824,000
Share-based payment	-	1,315,501	-	1,315,501
Shares issued in lieu of salary	345,745	-	-	345,745
Balance at 30 June 2015	41,363,396	4,417,082	(33,973,641)	11,806,837

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 2016

		Consolidated 2016	2015
	Note	\$	\$
Cash flow from operating activities			
Receipts from customers and other income		3,318,758	400,834
Payments to suppliers and employees		(13,515,181)	(4,634,757)
Interest received	3	44,018	29,812
Goods & services tax received from ATO		76,044	34,656
Net cash flows (used in) operating activities	19(b)	<u>(10,076,361)</u>	<u>(4,169,455)</u>
Cash flows from investing activities			
Investments in intangibles		(28,276)	(22,071)
Purchase of property, plant and equipment		(181,484)	(95,999)
Deposits paid		-	(1,090)
Net cash flows (used in) investing activities		<u>(209,760)</u>	<u>(119,160)</u>
Cash flows provided by financing activities			
Proceeds from issue of ordinary shares		6,000,000	10,100,000
Proceeds from exercise of options		3,906,113	1,822,000
Payment of capital raising costs		(396,000)	(809,281)
Interest paid		-	(99,318)
Net cash flows provided by financing activities		<u>9,510,113</u>	<u>11,013,401</u>
Net increase / (decrease) in cash and cash equivalents		<u>(776,008)</u>	<u>6,724,786</u>
Cash and cash equivalents at beginning of year		11,621,603	4,197,460
Effect of exchange rate changes on cash and cash equivalents		372,961	699,357
Cash and cash equivalents at end of year	19(a)	<u>11,218,556</u>	<u>11,621,603</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1. CORPORATE INFORMATION

The consolidated financial statements of Alexium International Group Limited and its subsidiaries (collectively, the Group) for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 30 September 2016. 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 Frankfurt Stock Exchange. Alexium commenced trading on the OTC markets prestigious tier, OTCQX International on January 13, 2012. These financial statements include the consolidated financial statements and notes of Alexium International Group Limited and controlled entities ('Group') and are presented in Australian Dollars.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

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

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

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

Separate financial statements for the Company as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, required financial information for the Company as an individual entity is included in Note 23.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

AASB 9 Financial Instruments

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

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

AASB 1057 Application of Australian Accounting Standards

In May 2015, the AASB decided to revise Australian Accounting Standards that incorporate IFRSs to minimise Australian-specific wording even further. The AASB noted that IFRSs do not contain application paragraphs that identify the entities and financial reports to which the Standards (and Interpretations) apply. As a result, the AASB decided to move the application paragraphs previously contained in each Australian Accounting Standard (or Interpretation), unchanged, into a new Standard AASB 1057 Application of Australian Accounting Standards.

The effective date is for annual reporting periods beginning on or after 1 January 2016. When this Standard is first adopted for the year ending 30 June 2017, there will be no impact on the financial statements.

AASB 14 Regulatory Deferral Accounts

AASB 14 permits first-time adopters of Australian Accounting Standards who conduct rate-regulated activities to continue to account for amounts related to rate regulation in accordance with their previous GAAP. Accordingly, an entity that applies AASB 14 may continue to apply its previous GAAP accounting policies for the recognition, measurement, impairment and derecognition of its regulatory deferral account balances. This exemption is not available to entities who already apply Australian Accounting Standards.

The effective date is for annual reporting periods beginning on or after 1 January 2016. When AASB 14 becomes effective for the first time for the year ending 30 June 2017, it will not have any impact on the entity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

AASB 15 Revenue from Contracts with Customers

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

In summary, AASB 15:

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

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

AASB 16 Leases

The new AASB 16:

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

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

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

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

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

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

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

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

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

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

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

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

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

(d) Group Accounting Policies

Interests in Joint Arrangements

Joint arrangements represent the contractual sharing of control between parties in a business venture where unanimous decisions about relevant activities are required.

Separate joint venture entities providing joint venturers with an interest to net assets are classified as a "joint venture" and accounted for using the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Joint venture operations represent arrangements whereby joint operators maintain direct interests in each asset and exposure to each liability of the arrangement. The Group's interests in the assets, liabilities, revenue and expenses of joint operations are included in the respective line items of the consolidated financial statements.

Gains and losses resulting from sales to a joint operation are recognised to the extent of the other parties' interests. When the Group makes purchases from a joint operation, it does not recognise its share of the gains and losses from the joint arrangement until it resells those goods/assets to a third party.

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 2016

Valuation techniques

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

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

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

Fair value hierarchy

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

Level 1

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

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

Level 2

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

Level 3

Measurements based on unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 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 21.

The assets, liabilities and results of all subsidiaries are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between Group entities are fully eliminated on consolidation. Accounting policies of subsidiaries have been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as “non-controlling interests”. The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary’s net assets on liquidation at either fair value or at the non-controlling interests’ proportionate share of the subsidiary’s net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

(f) Foreign currency translation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

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

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

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

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

(g) Property, plant and equipment

Owned assets

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

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

Leased assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 the consolidated statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

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

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

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

(h) Intangible assets

Acquired intangible assets

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

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

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

Subsequent expenditure

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

Amortisation

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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

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

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

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

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

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

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

(i) Impairment of assets

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

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

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

(j) Trade and other receivables

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(k) Determination and presentation of operating segments

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

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

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

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

(l) Cash and cash equivalents

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

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

(m) Financial instruments

Recognition, initial measurement and derecognition

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

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

(n) Embedded Derivative

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Rendering of services

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

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

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

Grant revenue

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

Deferred income

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

Interest and dividends

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

s) Income tax and other taxes

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

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

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Other taxes

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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.

(t) Earnings per share

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

(u) Employee benefits

Termination benefits

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

Long Term Employee Benefits

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

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

Short-term employee benefits

Short-term employee benefits are benefits, other than termination benefits, that are expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. Examples of such benefits include wages and salaries, non-monetary benefits and accumulating sick leave. Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Share-based payment transactions

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

(v) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for, as follows:

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

Initial cost of inventories includes the transfer of gains and losses on qualifying cash flow hedges, recognised in OCI, in respect of the purchases of raw materials.

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

(w) Significant accounting judgements, estimates and assumptions

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 16.

Fair value of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions in relation to these factors could affect the reported fair value of financial instruments. See Note 22 for further disclosures.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

	Consolidated	
	2016 (\$)	2015 (\$)
3. REVENUE		
Sales	3,001,203	59,190
Other income (a)	412,701	326,446
	<u>3,413,904</u>	<u>385,636</u>
Interest received	<u>44,028</u>	<u>29,812</u>

(a) Other income

During the period the Group received \$394,626 (2015: 319,642) 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.

	Consolidated	
	2016 (\$)	2015 (\$)
4. ADMINISTRATIVE EXPENSES		
Advertising and marketing	435,362	185,859
Amortisation of Intangibles	15,462	9,697
Depreciation	189,011	124,768
Employee benefits expense	3,672,088	1,433,727
Insurance expenses	85,912	77,718
Occupancy	212,802	125,930
Professional fees	2,130,604	896,345
Share based payment	4,175,190	1,555,098
Other administrative expenses	627,200	425,211
Total administrative expenses	<u>11,543,631</u>	<u>4,834,353</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

5. AUDITORS' REMUNERATION

The Group's auditor is Grant Thornton Australia.

	Consolidated	
	2016 (\$)	2015 (\$)
Amount received or due and receivable by Grant Thornton Australia for:		
(a) an audit or review of the financial report of the entity and any other entity in the consolidated group	159,725	25,000
(b) Other services in relation to the entity and any other entity in the consolidated group	-	-
	<u>159,725</u>	<u>25,000</u>
Amount received or due and receivable by related practices of Grant Thornton for:		
(a) an audit or review of the financial report of the entity and any other entity in the consolidated group	55,881	77,964
(b) Other services in relation to the entity and any other entity in the consolidated group	-	-
	<u>55,881</u>	<u>77,964</u>
Amount received or due and receivable by non-Grant Thornton Australia audit firms for:		
(a) an audit or review of the financial report of the entity and any other entity in the consolidated group	-	42,171
(b) Other services in relation to the entity and any other entity in the consolidated group	-	-
	<u>-</u>	<u>42,171</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

6. TAXATION	2016 (\$)	2015 (\$)
(a) Income tax recognised in profit and loss		
Prima facie tax on operating loss before income tax at 30%	(4,633,461)	(3,529,070)
Tax effect of permanent and temporary differences not booked	1,621,798	220,884
Tax losses not brought to account	3,011,663	3,308,186
Income tax benefit attributable to reversal of deferred tax liability on intangible assets	-	-
(b) Deferred tax assets		
Deferred tax assets at 30 June not brought to account:		
Employee benefits	196	2,004
Other	15,555	11,239
Income tax losses	1,052,154	874,470
	1,067,905	887,713
(c) Deferred tax liability		
Unrealized FX	1,067,905	887,713
	1,067,905	887,713
(d) Net deferred tax position		
Deferred Tax Assets	1,067,905	887,713
Deferred Tax Liabilities	1,067,905	887,713
Net deferred tax position	-	-
(e) Deferred tax assets not recognised		
Other	468,247	407,269
Income tax losses	8,778,978	6,674,429
Net deferred tax position	9,247,225	7,083,698

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The Group has estimated unrecouped income tax losses of \$28,692,531 (2015: \$17,782,641) 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.

7. 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	
	2016	2015
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	221,497,028	203,599,773
	\$	\$
Basic loss	(15,444,871)	(11,763,566)
Basic / Diluted loss per share	(0.0697)	(0.0578)

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	
	2016	2015
	Number of securities	Number of securities
Options over ordinary shares	16,882,357	29,825,000
Convertible Notes	-	-
Performance Rights	3,250,000	8,500,000
	20,132,357	38,325,000

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

8. TRADE AND OTHER RECEIVABLES

Current

Trade debtors

Other receivables

Consolidated

2016 (\$)

2015 (\$)

136,544

113,383

55,218

5,894

191,762

119,277

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

9. OTHER ASSETS

Raw materials

Freight - In

Finished good

Total inventory

Prepayments

Consolidated

2016 (\$)

2015 (\$)

1,473,098

20,908

95,461

-

88,110

51,557

1,656,669

72,465

90,869

97,965

1,747,538

170,430

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

10. PROPERTY, PLANT AND EQUIPMENT

	Consolidated			
	Furniture & Equipment	Leased assets	Construction In Progress	Total
Cost or valuation	\$	\$	\$	\$
Balance at 1 July 2014	519,198	255,591	-	774,789
Additions	103,155	120,982	-	224,137
Disposals	-	-	-	-
Foreign exchange movements	106,526	59,473	-	165,999
Balance at 30 June 2015	728,879	436,046	-	1,164,925
Additions	161,493	-	322,838	484,331
Disposals	(18,838)	-	-	(18,838)
Foreign exchange movements	1,462	12,687	607	14,756
Balance at 30 June 2016	872,996	448,733	323,445	1,645,174
Depreciation and impairment				
Balance at 1 July 2014	216,124	215,523	-	431,647
Depreciation	102,647	22,121	-	124,768
Disposals	-	-	-	-
Foreign exchange movements	43,742	50,149	-	93,891
Balance at 30 June 2015	362,513	287,793	-	650,306
Depreciation	134,566	54,445	-	189,011
Disposals	(18,838)	-	-	(18,838)
Foreign exchange movements	752	7,205	-	7,957
Balance at 30 June 2016	478,993	349,443	-	828,436
Net book value				
At 30 June 2014	303,074	40,068	-	343,142
At 30 June 2015	366,366	148,253	-	514,619
At 30 June 2016	394,003	99,290	323,445	816,738

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

11. INTANGIBLE ASSETS

	Consolidated	
	2016 (\$)	2015 (\$)
Patents and intellectual property		
Cost		
Balance at 1 July	313,408	496,528
Additions	-	22,071
Impairment	-	(253,285)
Foreign exchange movements	(37,711)	48,094
Balance at 30 June	<u>275,697</u>	<u>313,408</u>
Depreciation and impairment		
Balance at 1 July	128,561	134,984
Amortisation	15,462	9,697
Impairment	-	(27,377)
Foreign exchange movements	(16,780)	11,257
Balance at 30 June	<u>127,243</u>	<u>128,561</u>
Net book value	<u>148,454</u>	<u>184,847</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

12. TRADE AND OTHER PAYABLES

	Consolidated	
Current	2016 (\$)	2015 (\$)
Trade creditors	1,641,205	155,807
Other creditors	1,146,887	482,677
	<u>2,788,092</u>	<u>638,484</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.

13. OTHER LIABILITIES – DEFERRED INCOME

	Consolidated	
Current	2016 (\$)	2015 (\$)
Deferred income	<u>18,365</u>	<u>116,676</u>

The Group entered into licensing agreements with third-parties to market and sell the Group's products for a specified period of time. The license fees were received at the beginning of the license period and amortized ratably over the life of the agreement. The deferred income is in respect of product license fees covering future periods.

14. CONVERTIBLE NOTES

In September 2012, the Company placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. In April 2013 the Company placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. During the year nil shares (2015: 7,610,267 were issued at a price of \$0.08 each on conversion of 6,430,000 A series convertible notes and 10,045,000 shares were issued at a price of \$0.10 each on conversion of 10,045,000 B series convertible notes).

The movement in number of convertible notes is given hereunder:

	30 June 2016			30 June 2015		
	A Series \$	B Series \$	Total \$	A Series \$	B Series \$	Total \$
Balance at the beginning of the period	-	-	-	598,828	748,727	1,347,555
Unwinding of finance costs	-	-	-	44,172	255,773	299,945
Conversion during the year	-	-	-	(643,000)	(1,004,500)	(1,647,500)
Balance at the end of the year	-	-	-	-	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

The Terms and conditions of A Series and B Series Convertible Note are as under:

Convertible Notes – A Series

- A maturity date of 30 August 2014.
- Coupon rate of 13% per annum with interest paid quarterly in arrears.
- Convertible notes are unlisted and unsecured and are convertible to fully paid ordinary shares.
- Conversion price is lesser of:
\$0.10 per share OR; 87.5% of the previous 30-day volume weighted average price for the Group's ordinary shares
OR; In the event of a future issue of ordinary shares during the term, the price of issue of such fully paid ordinary shares.
- The note holder may elect to convert the convertible notes at any time after 90 days from the Allotment Date until the Maturity Date.

Convertible Notes – B Series

- A maturity date of 30 March 2016.
- Coupon rate of 12% per annum with interest paid quarterly in arrears.
- Convertible notes are unlisted and unsecured and are convertible to fully paid ordinary shares.
- Conversion price is lesser of:
\$0.10 per share OR; 87.5% of the previous 30-day volume weighted average price for the Group's ordinary shares
OR; In the event of a future issue of ordinary shares during the term, the price of issue of such fully paid ordinary shares.
- The note holder may elect to convert the convertible notes at any time after 90 days from the Allotment Date until the Maturity Date.

Embedded Derivative Financial Instrument

Options embedded in Convertible Notes were as follows:

	Consolidated	
	2016 (\$)	2015 (\$)
Opening balance	-	417,890
Movement in fair value	-	4,674,520
Options exercised in period	-	(5,092,410)
Closing balance	-	-

The cumulative change in the fair value of the financial liability as at 30 June 2016 is \$nil (2015: \$4,529,420).

The convertible notes issued by the Group contain an embedded option to convert the debt to ordinary shares. The embedded options have been separated from the host contract and accounted for as a derivative as 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 derivatives are measured at fair value with changes in value being recorded in profit or loss. Embedded options have been valued using a Black-Scholes pricing model which approximates the results that would have been achieved by using a binomial lattice Monte Carlo simulation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

15. CONTRIBUTED EQUITY

(a) Issued Capital

	2016 Shares	2015 Shares	2016 \$	2015 \$
Ordinary shares fully paid	298,736,791	261,350,490	51,634,479	41,363,396

(b) Movement in share capital

Balance at beginning of year	261,350,490	202,025,435	41,363,396	24,805,339
Series A Convertible Notes	-	7,610,267	-	643,000
Series B Convertible Notes	-	10,045,000	-	1,004,500
Transfer of conversion note reserve to equity	-	-	-	74,196
Option converted to shares	18,422,163	8,390,000	3,906,113	1,759,502
Capital raising	9,677,420	24,250,000	6,000,000	10,162,500
Conversion of performance rights	8,385,000	7,700,000	-	-
Costs of capital raising	-	-	(369,000)	(2,449,600)
Derivative	-	-	-	5,018,214
Shares issued in lieu of salary	312,288	1,329,788	279,280	345,745
Shares issued in lieu of services	589,430	-	454,690	-
Totals	298,736,791	261,350,490	51,634,479	41,363,396

(c) Movements in Performance Rights

	2016 Number	2015 Number	2016 \$	2015 \$
Balance at beginning of year	8,500,000	8,600,000	464,100	198,660
Rights forfeited during year	(115,000)	(900,000)	(6,279)	(20,790)
Rights converted to shares during year	(8,385,000)	(7,700,000)	(457,821)	(177,870)
Rights issued, net of costs*	3,250,000	8,500,000	395,850	464,100
	3,250,000	8,500,000	395,850	464,100

November 2015 Performance Rights

* The underlying value of an Alexium share trading on ASX on 9 November 2015 was \$0.87, this has been used as an underlying value of a performance rights in Alexium. The 3,250,000 discounted performance rights in Alexium issued to Directors has an underlying value of \$395,850 based on closing share price on 9 November 2015 of \$0.87. As announced on the 13 November 2015, Alexium issued 3,250,000 performance rights to directors. The performance rights were issued for nil consideration.

In order to vest, milestone 1 and any two of the other milestones will need to be achieved by 30 June 2017 (the Period).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

1) Share Price Appreciation

The price of Shares as traded on ASX must equal or exceed \$1.2520, over a 5-day volume weighted average closing price during the Period, being the price which is a 40% premium to the 20 day volume weighted average closing price per Share, calculated as at 17 September 2015, being the date immediately prior to this Notice.

2) Revenue of not less than \$15m for the Period

The Group must achieve at least \$15m in revenues during the Period.

3) Achieving Initial Product Sales in non-textile areas

The Group must achieve either direct product sales revenues or licencing revenues in new product development areas outside textiles or the textile market during the Period.

4) Product Sales for Chem/Bio Protection

The Group must achieve either direct product sales revenues or licencing revenues from its RST applications on Chemical and Biological Protection ensembles during the Period.

5) US Department of Defense Contracts

The Group must enter into, directly or through a supplier, at least one significant contract with an arm or agency of the US Department of Defense during the Period in relation to products utilising FR technology.

6) Rest of the World Contracts

The Group must enter into, directly or through partners, at least two new significant contracts for the sale or licencing of FR formulations to customers located outside the United States, during the Period.

7) NYSE Markets Quotation

The Group's ordinary shares or American Depositary Receipts being quoted and trading on the New York Stock Exchange or any subsidiary exchange thereof relevant to companies the size of the Group during the Period.

8) S&P ASX 300 Index

That the Group's ordinary shares or equivalent depositary receipts trading on the ASX are included in the S&P ASX 300 Index.

November 2014 Performance Rights

*The underlying value of an Alexium share trading on ASX on 10 November 2014 was \$0.26, this has been used as an underlying value of a performance right in Alexium. The 8,500,000 discounted performance rights in Alexium issued to Directors and employees has an underlying value of \$464,100 based on the closing share price on 10 November 2014 of \$0.26.

As announced on the 13th November 2014, Alexium issued 8,500,000 performance rights; 5,500,000 issued to Directors and 3,000,000 issued to employees. The performance rights were issued for nil consideration.

In order to vest, milestone 1 and any 2 of the other milestones will need to be achieved by 30 June 2016.

1) Share Price Appreciation

The price of Shares as traded on ASX must equal or exceed \$0.187, over a 5-day volume weighted average closing price during the Period, being the price which is a 35% premium to the 60-day volume weighted average closing price per Share, calculated as at the date being 7 days before the date of the Notice.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

2) Revenue of not less than \$5m for the Period

The Group must achieve at least \$5m in revenues during the Period.

3) Achieving Product Sales on 3 Products

The Group must achieve either direct product sales revenues or licencing revenues on at least 3 products during the Period.

4) Entering into Joint Ventures

The Group must enter into a new joint venture for the development of its products in the field of bromine replacement in Fire Retardants, with a recognised leader in the field, the subject of the joint venture, during the Period.

5) Product Sales for Chem/Bio Protection

The Group must achieve either direct product sales revenues or licencing revenues from its RST applications on Chemical and Biological Protection ensembles during the Period.

6) United States Quotation

The Group's shares, American depositary receipts or the shares of the entity resulting from a merger of the Company and its US subsidiary being quoted on the New York Stock Exchange, the NASDAQ Securities Exchange or any subsidiary exchanges thereof relevant to companies the size of the Group or an equivalent US Securities Exchange for technology companies of similar standing, during the Period.

7) US Department of Defense Contracts

The Group must enter into, directly or through a supplier, at least one significant contract with an arm or agency of the US Department of Defense during the Period in relation to products utilising either the RST technology or FR technology.

(d) Share options issued

At the year-end there were 7,863,607 free attaching options outstanding (2015: 11,730,000) and 9,018,750 share based payment options outstanding (2015: 18,095,000). Refer to Note 17(e) for details of the share based payment options outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(e) Movements in share options

Year 2016	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Reinstated during the year	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
Unlisted options	21/03/11	\$0.15	31/12/15	4,355,000	-	-	(4,124,520)	(230,480)	-
Unlisted options	21/09/11	\$0.15	31/12/15	5,000,000	-	-	(5,000,000)	-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-	-	(1,000,000)	-	-
Unlisted options	30/11/12	\$0.08	31/12/16	2,500,000	-	-	(1,000,000)	-	1,500,000
Unlisted options	22/06/11	\$0.10	24/06/16	540,000	-	-	-	(540,000)	-
Unlisted options	10/11/14	\$0.25	9/11/16	3,930,000	-	-	(2,983,019)	-	946,981
Unlisted options	10/11/14	\$0.198	9/11/17	750,000	-	-	-	-	750,000
Unlisted options	01/09/14	\$0.18	31/08/17	450,000	-	-	(275,000)	-	175,000
Unlisted options	13/05/15	\$0.70	31/12/17	1,000,000	-	-	(500,000)	-	500,000
Unlisted options	13/05/15	\$0.80	31/12/17	1,000,000	-	-	-	-	1,000,000
Unlisted options	20/5/15	\$0.13	31/08/17	1,500,000	-	-	(1,470,000)	-	30,000
Unlisted options	06/05/15	\$0.75	07/05/18	7,800,000	-	-	(883,374)	-	6,916,626
Unlisted options	06/08/15	\$0.16	31/08/17	-	1,500,000	-	(530,000)	-	970,000
Unlisted options	01/10/15	\$0.75	30/09/20	-	1,500,000	-	-	-	1,500,000
Unlisted options	04/11/15	\$0.18	31/08/17	-	1,500,000	-	(375,000)	-	1,125,000
Unlisted options	09/11/15	\$1.207	09/11/17	-	125,000	-	-	-	125,000
Unlisted options	09/11/15	\$1.314	09/11/17	-	125,000	-	-	-	125,000
Unlisted options	26/02/16	\$0.20	31/08/17	-	1,500,000	-	(281,250)	-	1,218,750
				29,825,000	6,250,000	-	(18,422,163)	(770,480)	16,882,357

- 770,480 options expired during the current year (2015: Nil).
- Nil options were forfeited during the current year (2015: 750,000).
- 14,555,770 share based payment options were exercised during the current year (2015: 7,070,000).
- 3,866,393 free attaching options were exercised during the current year (2015: 1,570,000).
- All options were exercised for an equivalent number of ordinary shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

Year 2015	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Reinstated during the year	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number
Unlisted options	30/07/10	\$0.30	31/12/14	2,500,000	-	-	(2,500,000)	-	-
Unlisted options	21/03/11	\$0.15	31/12/15	-	-	750,000	(750,000)	-	-
Unlisted options	21/03/11	\$0.15	31/12/15	6,375,000	-	-	(2,020,000)	-	4,355,000
Unlisted options	21/03/11	\$0.20	31/12/15	-	-	750,000	(750,000)	-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-	-	-	-	1,000,000
Unlisted options	22/06/11	\$0.10	24/06/16	540,000	-	-	-	-	540,000
Unlisted options	21/09/11	\$0.15	31/12/15	5,000,000	-	-	-	-	5,000,000
Unlisted options	10/11/14	\$0.198	9/11/17	-	750,000	-	-	-	750,000
Unlisted options	1/9/14	\$0.18	31/8/17	-	750,000	-	(300,000)	-	450,000
Unlisted options	13/5/15	\$0.70	31/12/17	-	1,000,000	-	-	-	1,000,000
Unlisted options	13/5/15	\$0.80	31/12/17	-	1,000,000	-	-	-	1,000,000
Unlisted options	20/5/15	\$0.13	31/8/17	-	1,500,000	-	-	-	1,500,000
Unlisted options	30/11/12	\$0.08	31/12/16	4,000,000	-	-	(750,000)	(750,000)	2,500,000
Unlisted options	10/11/14	\$0.25	9/11/16	-	5,500,000	-	(1,570,000)	-	3,930,000
Unlisted options	6/5/15	\$0.75	7/5/18	-	7,800,000	-	-	-	7,800,000
				19,415,000	18,300,000	1,500,000	(8,640,000)	(750,000)	29,825,000

- Nil options expired during 2015 (2014: 4,436,663).
- 750,000 options were forfeited during 2015 due to resignation of a staff member (2014: 1,500,000).
- 7,070,000 share based payment options were exercised during 2015 (2014: 375,000) and 1,570,000 free attaching options were exercised (2014: 563,337).
- All options were exercised for an equivalent number of ordinary shares.

In the event of winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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 Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

(g) Capital management

The Group'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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

16. SHARE-BASED PAYMENTS

The following is the summary of share based payments expensed during the year.

	2016		2015	
	Number	\$	Number	\$
(a) Shares issued during the year for payment in lieu of salary and services	901,718	733,970	1,329,788	345,745
(b) Performance Rights issued to the Directors	3,250,000	395,850	8,500,000	464,100
(c) Options issued during the year	6,250,000	3,779,340	4,250,000	1,060,962

(a) Shares

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

- (i) 312,288 shares issued in lieu of salary to the Directors of the Group. The Group agreed and approved at the 2015 AGM on 9 November 2015.
- (ii) 589,430 shares issued in lieu of services provided by the external consultants of the Group.

There were no cash-settled share-based payments provided during the year (2015: Nil).

(b) Performance rights

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(c) Options

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

	2016		2015	
	Number	WAEP	Number	WAEP
Outstanding at 1 July	18,095,000	\$ 0.36	19,415,000	\$ 0.16
Granted during the year	6,250,000	\$ 0.36	5,000,000	\$ 0.40
Reinstated during the year	-	\$ -	1,500,000	\$ 0.18
Forfeited during the year	-	\$ -	(750,000)	\$ 0.07
Exercised during the year	(14,555,770)	\$ 0.17	(7,070,000)	\$ 0.20
Expired during the year	(770,480)	\$ 0.12	-	\$ -
Outstanding at 30 June	<u>9,018,750</u>	<u>\$ 0.39</u>	<u>18,095,000</u>	<u>\$ 0.36</u>

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 1.42 years (2015: 2.66 years), and the exercise prices range from 8 cents to 131.4 cents (2015: 8 cents to 80 cents).

The assessed fair values of the options were determined using a variation of the binomial option pricing model that takes into account factors specific to the share incentive plans, such as the vesting period. The following principal assumptions were used in the valuation:

	30-Jun-16		
	Number	value per option	\$
a) Services rendered	3,000,000	0.9401	2,820,310
b) Directors	1,750,000	0.5480	959,030
			<u>3,779,340</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

17. RESERVES

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

2015	Option premium reserve	Performance rights reserve	Foreign currency translation reserve	Total reserve
	\$	\$	\$	\$
Balance at 1 July 2014	603,038	106,971	(260,527)	449,482
Share-based payment expense	1,060,962	-	-	1,060,962
Stock warrant	1,640,317	-	-	1,640,317
Performance rights expense	-	256,539	-	256,539
Foreign currency translation differences arising during the year	-	-	1,009,782	1,009,782
Balance at 30 June 2015	3,304,317	363,510	749,255	4,417,082

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

18. ACCUMULATED LOSSES

	Consolidated	
	2016 (\$)	2015 (\$)
Balance at beginning of year	(33,973,641)	(22,210,075)
Net loss attributable for the year	(15,444,871)	(11,763,566)
Balance at end of year	(49,418,512)	(33,973,641)

19. 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	
	2016 (\$)	2015 (\$)
Cash on hand	11,218,556	11,621,603

Cash at bank attracts floating interest at current market rates.

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

	Consolidated	
	2016 (\$)	2015 (\$)
Operating loss after income tax	(15,444,871)	(11,763,566)
Non-cash items		
Depreciation and amortisation of non-current assets	(204,473)	134,465
Share-based payment	4,909,160	1,663,246
Loss from embedded derivative	-	4,674,520
Interest and amortisation of cost of raising convertible notes	-	399,263
Unrealised foreign exchange (gains) / losses	(8,586)	1,634
Changes in assets and liabilities net of effect of purchase of subsidiaries		
(Increase)/Decrease in trade and other receivables	(72,485)	(48,302)
(Increase)/Decrease in other current assets	(1,317,396)	(66,770)
Increase / (Decrease) in trade and other payables	2,149,608	448,804
Increase / (Decrease) in other current liabilities	(87,318)	387,251
Net cash (used in) operating activities	(10,076,361)	(4,169,455)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

20. SEGMENT REPORTING

For management purposes, the Group is organised into one main operating segment which involves the development of a patented technology known as “Reactive Surface Technology” (RST). Alexium is the exclusive licensee of this particular patent and has applied for additional patents in its own capacity around the world. All of the Group's activities are interrelated and discrete financial information is reported to the Board (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
2016				
Sales Revenue	-	3,001,203	-	3,001,203
Property, Plant and Equipment	9,294	754,142	53,301	816,737
Intangible assets	-	-	148,454	148,454
2015				
Sales Revenue	-	59,190	-	59,190
Property, Plant and Equipment	6,704	441,887	66,028	514,619
Intangible assets	-	-	184,847	184,847

21. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Percentage Owned (ordinary shares)	
		2016 (%)	2015 (%)
Parent Entity			
Alexium International Group Limited	Australia		
Subsidiaries of Alexium International Group Limited			
Alexium Limited	Cyprus	100	100
Alexium Inc.	United States of America	100	100

The parent entity has an interest free unsecured loan with Alexium Inc. amounting to \$30,763,029 (2015: \$22,235,265). The parent entity has an interest free unsecured loan with Alexium Ltd amounting to \$412,977 (2015: \$470,874).

22. 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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:

2016	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
	%	\$	\$	\$	\$	\$	\$
Financial Assets							
Cash and cash equivalents	0.46	10,092,812	-	-	-	1,125,744	11,218,556
Trade and other receivables/other financial assets		-	-	-	-	191,762	191,762
		10,092,812	-	-	-	1,317,506	11,410,318
Financial Liabilities							
Trade and other payables		-	-	-	-	2,806,641	2,806,641
		-	-	-	-	2,806,641	2,806,641
2015							
Financial Assets							
Cash and cash equivalents	0.42	10,050,660	-	-	-	1,570,943	11,621,603
Trade and other receivables/other financial assets	-	-	-	-	-	119,277	119,277
		10,050,660	-	-	-	1,690,220	11,740,880
Financial Liabilities							
Trade and other payables	-	-	-	-	-	638,484	638,484
Convertible Notes	-	-	-	-	-	-	-
		-	-	-	-	638,484	638,484

(b) Interest rate risk

At 30 June 2016, 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 \$112,186 higher (2015: changes of 1% \$116,216 higher/\$116,216 lower) based on cash and cash equivalent held at variable rates.

The 1% (2015: 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

FOR THE YEAR ENDED 30 JUNE 2016

(c) Foreign currency risk

The Group currently conducts its operations across international borders.

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

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

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

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

2016 Consolidated	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	30,763,029	-	412,977	-	31,176,006
US dollar	-	-	(1,045,851)	-	(1,045,851)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	30,763,029	-	(632,874)	-	30,130,155
2015 Consolidated	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	22,235,265	-	470,874	-	22,706,139
US dollar	-	-	(1,113,204)	-	(1,113,204)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	22,235,265	-	(642,330)	-	21,592,935

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

(d) Credit Risk

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

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

(e) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being development of a patented technology known as "Reactive Surface Technology", the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. As at 30 June 2016 and 2015, all financial assets and financial liabilities have a maturity date of less than one year.

(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 2016 and 2015, there were no other financial assets and liabilities other than cash, trade receivables and payables.

Measurement of fair value of financial instruments

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

Embedded derivatives (Level 3)

The assessed fair values of the derivatives were determined using a Black-Scholes option pricing model which approximates the results that would have been achieved by using a binomial lattice. The model takes into account the expected price volatility of the underlying instrument, expected dividend yield and the risk-free interest rate. A collection of comparable companies has been used as a proxy for the volatility determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

23. PARENT ENTITY INFORMATION

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2016. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity	
	2016 (\$)	2015 (\$)
Current assets	1,150,760	914,088
Non-current assets	10,374,558	10,981,720
Total assets	11,525,318	11,895,808
Current liabilities	257,788	88,971
Non-current liabilities	-	-
Total liabilities	257,788	88,971
Contributed equity	51,634,479	41,363,396
Accumulated losses	(48,209,968)	(33,224,386)
Performance rights reserves	759,360	363,510
Options reserves	7,083,659	3,304,317
Total equity	11,267,530	11,806,837
Loss for the year	(14,985,582)	(10,753,784)
Other comprehensive income net of tax for the year	-	-
Total comprehensive income net of tax for the year	(14,985,582)	(10,753,784)

The Group's commitments and contingencies are detailed in Note 24.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

24. COMMITMENTS AND CONTINGENCIES

The Group has the following contingent liabilities and commitments.

- 1) Alexium has entered into an agreement with the United States Department of Defence whereby Alexium owns exclusive rights for the RST Technology under patent application in the United States in exchange for a 2.5% gross sales royalty to be paid to the US Government. Alexium has also entered into an agreement with Dr Owens for exclusive rights to the rest of the world, for the same patent application excluding the United States, in exchange for a 5% gross sales royalty to be paid to Dr Owens. These royalties only apply where the RST technology is used in the product production process, which does not include all fire retardant products.
- 2) On June 15, 2016 the group entered into an agreement with Dian Griesel International to provide comprehensive communications services for \$5,000 per month for a period of twelve months.

(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 3 years. There are no contingent rent payments, and one lease contains a renewal option for one additional year.

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

	Consolidated	
	2016 (\$)	2015 (\$)
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	85,261	80,041
Later than one year but not later than 5 years	776,512	10,913
	<u>861,773</u>	<u>90,954</u>

2) *Finance leases*

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

Depreciation of assets under financing leases is included in depreciation expense and totalled \$54,445 and \$22,121 for the years ended June 30, 2016 and 2015 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

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:

	2016 (\$)	2015 (\$)
Not later than one year	43,025	64,874
Later than one year and not later than five years	19,095	60,901
Total	62,120	125,775
Future finance charges on finance leases	(5,046)	(15,472)
Present value of finance lease liability	57,074	110,303

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

	2016 (\$)	2015 (\$)
Not later than one year	38,652	54,319
Later than one year and not later than five years	18,422	55,984
Total	57,074	110,303

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 2016.

(b) Contingencies

The Group has no other contingent liabilities as at 30 June 2016.

25. 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.

26. SUBSEQUENT EVENTS

Except for events disclosed elsewhere in this report 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.

DIRECTORS DECLARATION

FOR THE YEAR ENDED 30 JUNE 2016

The Directors of the Group declare that:

1. The financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and accompanying notes, as set out on pages 28 to 74 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Group's financial position as at 30 June 2016 and of its performance for the year ended on that date;
2. The Group has included in the notes to the financial statements an explicit and unreserved statement of compliance with International Financial Reporting Standards
3. The Chief Executive Officer has declared that:
 - (a) the financial records of the Group for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
 - (b) the financial statements and notes for the financial year comply with the Accounting Standards;
 - (c) the financial statements and notes for the financial year give a true and fair view; and
 - (d) the remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.
4. The remuneration disclosure set out on pages 12 to 24 of the Directors' report (as part of the audited Remuneration Report) for the year ended 30 June 2015 comply with section 300A of the Corporations Act 2001.
5. In the Directors' opinion there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

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



Gavin Rezos
Executive Chairman
Perth, 30th September 2016

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

Report on the financial report

We have audited the accompanying financial report of Alexium International Group Limited (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2016, 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, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Group and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Group 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. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Group's preparation of the financial report that gives a true and fair view in order to design

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audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001.

Auditor's opinion

In our opinion:

- a the financial report of Alexium International Group Limited is in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the note 2 (a) to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 12 to 24 of the directors' report for the year ended 30 June 2016. The Directors of the Group 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Alexium International Group Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



M J Hillgrove
Partner - Audit & Assurance

Perth, 30 September 2016

ADDITIONAL INFORMATION

FOR THE YEAR ENDED 30 JUNE 2016

The distribution of members and their holdings at 21 September 2016 was as follows:

NAME OF 20 LARGEST ORDINARY SHAREHOLDERS	NUMBER OF ORDINARY FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
Mrs Joanne Ellen Rezos	20,400,000 *	6.82
JP Morgan Nominees Australia Ltd	18,589,480 *	6.21
Piper Buchanan Limited	10,863,000 *	3.63
HSBC Custody Nominees (Australia) Limited <Euroclear Bank SA NV A/C>	10,000,000	3.34
Geonicclark Pty Ltd <Geonicclark Super Fund A/C>	9,025,320 *	3.02
HSBC Custody Nominees (Australia) Limited	7,476,980 *	2.50
Mr Peter John Bartter	6,986,648 *	2.34
Dr Stuart Phillips and Mrs Fiona Phillips <SL & FJ Phillips S/F A/C>	5,330,000 *	1.78
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	5,225,030 *	1.75
Korcula (BVI) S A	4,812,000 *	1.61
Floreant Ambo Pty Ltd <Rezoz Family Super Fund A/C>	4,675,000 *	1.56
National Nominees Limited	4,609,030 *	1.54
Mr Egan Harvey Johnson	3,987,502 *	1.33
Catl Pty Ltd <The Minto A/C>	3,500,000 *	1.17
Mr Anil Utturkar & Mrs Rekha Utturkar <Rutna Super Fund A/C>	3,200,000 *	1.07
Dr Stuart Phillips and Mrs Fiona Phillips <Stuart Phillips Family A/C>	3,100,000 *	1.04
Himstedt Superannuation Pty Ltd <Himstedt Super Fund A/C>	3,000,000 *	1.00
Mr Robert Neal Brookins	2,933,500	0.98
Citicorp Nominees Pty Ltd	2,385,468 *	0.80
David Rivett Pty Limited <Super Fund A/C>	2,000,000	0.67
	<u>132,098,958</u>	<u>44.16</u>

MARKETABLE PARCEL

At 21 September 2016, 404 shareholders held less than a marketable parcel.

VOTING RIGHTS – ORDINARY SHARES

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

SUBSTANTIAL SHAREHOLDERS

Shares held by substantial shareholders listed in the company's register at 21 September 2015 are indicated by * above.

STOCK EXCHANGE LISTING

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

Quotation has been granted on the Frankfurt Exchange.

Alexium is fully quoted on the OTCQX.

DISTRIBUTION OF SHAREHOLDERS

	Shareholders
1 - 1,000 shares	497
1,001 - 5,000 shares	1,055
5,001 - 10,000 shares	740
10,001 - 100,000 shares	1,656
100,001 and over	350
Total Ordinary Shareholders	<u>4,298</u>