



**ALEXIUM INTERNATIONAL GROUP LIMITED**

**ABN 91 064 820 408**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2011**

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## COMPANY DIRECTORY

### ALEXIUM INTERNATIONAL GROUP LIMITED

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**DIRECTORS:**

Mr Gavin Rezos  
Mr Craig Smith-Gander  
Mr Stefan Susta

**COMPANY  
SECRETARY:**

Mr Nicholas Clark

**REGISTERED AND  
PRINCIPAL OFFICE:**

Level 28, AMP Tower  
140 St George's Terrace  
Perth WA 6000  
Telephone: +61 8 6467 0100  
Facsimile: +61 8 6467 0105

**AUDITORS:**

Stantons International  
Level 1, 1 Havelock Street  
West Perth WA 6005

**SHARE REGISTRY:**

Computershare Investor Services Pty Ltd  
Level 2  
Reserve Bank Building  
45 St Georges Terrace  
PERTH WA 6000

Telephone: 1300787575  
Facsimile: (08) 9323 2033

**BANKERS:**

Macquarie Bank  
235 St George's Terrace  
Perth WA 6000

**SOLICITORS:**

Steinpreis 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

Frankfurt Stock Exchange  
(ISIN: AU000000AJX6) (WKN A1CTT8) (E7T)

## CHAIRMAN'S REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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28 September 2011

Dear Shareholders

I am pleased to present your company's annual report for 2011 and highlight progress on our award winning Reactive Surface Treatment (RST) technology.

This year your company grew its production and testing capability in technical textiles at our Greer, South Carolina plant, by installing two new RST microwave units in series as part of a higher speed textile line. We have also been supporting our US Department of Defense (DoD) friends in applications of the RST technology, part of which falls under the Cooperative Research and Development Agreement between Alexium and the US Air Force.

In May 2011 we lodged a US\$129m invited tender with the DoD, in conjunction with established US Defense contractor Tennier Industries and Stedfast Inc of Canada, a leading supplier of coating and laminating technologies. The tender is for chem bio protection suits for use by the DoD.

Your company has also listed on the Frankfurt and Xetra stock exchanges in Europe and as well as welcomed large US institutional investors to our share register. Alexium also gave a number of invited presentations at world leading industry conferences during the year.

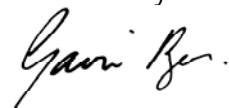
Highlights include:

- July 2010 First sales & revenues received from DoD
- July 2010 Listing on the Frankfurt Stock Exchange and Xetra Trading Platform
- Sept 2010 Hong Kong, China SAR, Patent granted for smart surface technology.
- Sept 2010 US Special Forces order for advanced protective textiles
- November 2010 Option and Facilities Agreement with SSM Industries. Supplier to NASCAR
- January 2011 Expanded Production Capacity at Greer, SC, Facility
- February 2011 Teaming Agreement with Stedfast Inc of Canada
- March 2010 USD\$8m Equity Facility Agreement with Roswell Capital in Georgia, USA
- March 2011 Collaboration Agreement with Bruck Industries, Australia
- April 2011 Supply Agreement with International Textile Group (ITG) USA
- April 2011 USD\$129m tender bid to US DoD with Tennier Industries and Stedfast Inc.
- June 2011 USD1.3m placement to US and European Institutions
- June 2011 RST Patent granted in Singapore
- September 2011 Merriman appointed for an OTCQX listing of AJX securities
- September 2011 Alexium receives purchase order from US DoD.

I'm also pleased to welcome Halis Alkis as our new CEO this year. Halis is a textile industry veteran with over 40 years US and international experience in textiles manufacturing, marketing and management. Halis's experience is invaluable as we commercialize the technology in textiles, our initial area of application.

Your Board thanks you for your support. We recognize the need to deliver strong revenues and we are focussed both on the defense sector as well as the commercial sector to achieve recurring revenue streams from product sales, licencing and royalties.

Yours faithfully



Gavin Rezos  
Chairman

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

Your directors submit their report together with the financial report of Alexium International Group Limited ("the Company") for the year ended 30 June 2011:

#### DIRECTORS

The names and details of the Company'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. He is currently a non-executive Director of Iluka Resources Limited and DSF International Holdings Limited and Principal of Viaticus Capital Pty Ltd.

**Mr Stefan Susta** MBA, BSc BA, Executive Director

Mr Susta has spent over 10 years working with the US Department of Defence on Technology Insertion, Technology Transfer and Commercialisation. He leads Alexium's US office business operations and Department of Defence business development efforts. Mr Susta received his BSc from Virginia Tech University in Chemical Engineering and Chemistry in 1996 and an MBA from Wright State University in 2001.

**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.

#### *Directors who resigned during the period were:*

Mr Stephen Ribich  
Resigned 7 March 2011

#### *Directorships of other listed companies during the last 3 years*

<i>Name</i>	<i>Company</i>	<i>Commenced</i>	<i>Ceased</i>
Mr Gavin Rezos	Iluka Resources Ltd	20 June 2006	-
	Niuminco Group Limited (formerly DSF International Holdings Limited)	10 November 2008	30 August 2011
Mr Stefan Susta	None	-	-
Mr Craig Smith-Gander	None	-	-

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### *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:

<i>Name</i>	<i>Number of ordinary shares</i>	<i>Number of Performance shares</i>	<i>Number of options over ordinary shares</i>
Mr Gavin Rezos	12,785,957	2,500,000	7,400,000
Mr Craig Smith-Gander	114,286	-	1,000,000
Mr Stefan Susta	-	-	1,500,000

#### COMPANY SECRETARY

The following person held the position of company secretary at the end of the financial year:

Mr Nicholas Clark *BEC, LLB, F FIN AFAIM*

Mr Clark was appointed company secretary on 30 November 2010, following the resignation of Mrs Nadine Donovan.

#### PRINCIPAL ACTIVITY

The principal activities of the entities in the group during the year were developing and licensing its intellectual property known as Reactive Surface Treatment (RST) technology.

#### RESULTS AND REVIEW OF OPERATIONS

The Group's net loss attributable to members of the Company for the financial year ended 30 June 2011 was \$2,929,364 (2010: \$5,776,704). The higher loss in 2010 was a result of a share-based payment expense of \$746,195 and a deferred tax liability of \$3,465,442 arising from the business combination of the Alexium Limited acquisition which was impaired as required under accounting standards.

As at 30 June 2011 the cash position was \$1,972,737 (2010: \$3,303,043) and the Company had 123,458,402 ordinary shares on issue (2010: 107,871,688).

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year other than as stated below.

Contributed equity increased by \$1,318,512 (from \$17,197,558 to \$18,516,070) as the result of the share placement raising \$1,350,000 less cost of \$31,488.

As announced on 24 March 2011, Alexium signed a term sheet for an US\$8 million, 3 year equity line funding facility with Centurion Private Equity, LLCC, an institutional investor managed by Roswell Capital Partners, LCC based in Georgia, USA.

#### DIVIDENDS

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

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### UNISSUED SHARES UNDER OPTION

##### *Unissued shares*

As at the date of this report there were 42,790,000 unissued ordinary shares under option (2010: 28,000,000). Details of these options are as follows:

<i>Date Options Granted</i>	<i>Expiry Date</i>	<i>Exercise price of shares</i>	<i>Number under option</i>
19 June 2008	31 December 2012	\$0.10	7,000,000
26 February 2010	26 February 2012	\$0.30	16,000,000
26 February 2010	26 February 2012	\$0.40	1,250,000
26 February 2010	26 February 2014	\$0.50	1,250,000
30 July 2010	31 December 2014	\$0.30	2,500,000
09 March 2011	31 December 2015	\$0.15	750,000
09 March 2011	31 December 2015	\$0.20	750,000
21 March 2011	31 December 2015	\$0.15	6,750,000
21 March 2011	31 December 2015	\$0.25	1,000,000
22 June 2011	21 June 2016	\$0.10	540,000
16 September 2011	31 December 2015	\$0.15	5,000,000

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company. No options were exercised during the financial year or subsequent to year end. 2.5 million options lapsed during the year.

In addition to the above, there are 52,500,000 performance shares on issue (2010: 52,500,000). The performance shares were granted on 26 February 2010 and are subject to ASX approved performance criteria. The terms of the performance shares are disclosed in note 14(c).

#### AFTER BALANCE DATE EVENTS

No matters or circumstances have arisen since the end of the financial year which significantly affects the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than stated below.

Five million unlisted options exercisable at 15 cents were issued to directors as approved by shareholders on 16 September 2011. The options are subject to vesting conditions and expire 31 December 2015.

#### FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group's efforts have focused on developing the RST technology for a broad range of military and commercial applications. A critical part of developing these is demonstrating the desired performance on both laboratory as well as production level product. The Group's research facility in Greer, South Carolina has been equipped with two microwave units in tandem for treating full width fabrics at near production speeds. With this infrastructure, the Group can demonstrate the RST process at a manufacturing scale, a fundamental step in transitioning the RST technology to final product.

In the Defense sector, the Group has responded to various requests to supply RST treated textiles to the Department of Defense in support of current tenders and technology demonstration projects. This work will continue with an expectation that the pending UIPE tender will reach fruition and ramp up in the coming year, and be followed with additional opportunities, understanding that each award is made on a competitive basis and subject to transition periods.

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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Among the potential commercial opportunities, the Group has focused on specific applications where the unique properties of the RST process afford clearly value-added products. This work may generally be categorized as applications in flame retardant fabrics, water and oil repellent surfaces, composites and filtration. In each of these areas, the Group has identified and partnered with a market leader in order to gain market insight as well as to validate and transition the final product.

The Group's research and development efforts into additional areas using the RST technology will continue through the Cooperative Research and Development Agreement with the US Air Force, through its own additional development work at its Greer facility to support new commercial applications and through the resources provide by commercial partners.

As it has been the case in the past, it is expected that this additional work will generate new patent applications and improvements of the RST technology over time, thereby extending patent protection.

#### **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 2010 to 30 June 2011 the directors have asserted that there are no current reporting requirements, but may be required to do so in the future.

#### **REMUNERATION REPORT (AUDITED)**

This report outlines the remuneration arrangements in place for directors and executives of Alexium International Group Limited.

##### **Director and executive details**

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

- Mr Gavin Rezos
- Mr Craig Smith-Gander
- Mr Stefan Susta
- Mr Stephen Ribich (resigned 7 March 2011)

Other non-director Company executives, during the year were:

- Mr Halis Alkis – Interim Chief Executive Officer (appointed 7 March 2011)
- Mr John Almond – Business Development Manager Europe
- Dr Bob Brookins – Chief Technology Officer
- Mr Nicholas Clark – Chief Financial Officer and Company Secretary (appointed 30 November 2010)

##### **Remuneration Policy**

The Board recognises that Alexium International Group Limited ("Alexium" or "Company") and its subsidiaries ("Group") operates in a global environment. To prosper, the Company 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.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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- 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.

#### *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 Company.

Other incentive plans including partly paid shares, share purchase loans or other schemes may be utilised to provide longer-term incentives and rewards to executives 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 Company.

#### *Non-Executives*

In view of the significant contribution of the non-executive directors and advancing the interest in the Company by international networking, Alexium considers that the non-executives may continue to be rewarded with options. 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 government regulation, which is currently 9% 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 A \$60,000 per year (inclusive of director's fees). The Company may also pay Mr Rezos additional remuneration in the form of a performance-based bonus over and above the salary. On 16 September 2011, shareholders approved the issue of 2 million options at an exercise price of 15 cents, expiring 31 December 2015, subject to vesting conditions;

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

- Termination: Mr Rezos may terminate the Service Agreement without cause upon giving 9 months written notice to the Company or 3 months notice should the Company so elect. The Company 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 Stefan Susta, Executive Director and Chief Operating Officer**

- 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\$155,000 per year (inclusive of director's fees). The Company may also pay Mr Susta additional remuneration in the form of a performance-based bonus over and above the salary; On 16 September 2011, shareholders approved the issue of 2 million options at an exercise price of 15 cents, expiring 31 December 2015, subject to vesting conditions.
- Termination: Mr Susta may terminate the Service Agreement without cause upon giving 6 months written notice to the Company. The Company may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Susta or make a payment of 6 months salary in lieu of notice.

#### **Mr Halis Alkis, Interim Chief Executive Officer**

- Term: the initial term of the Service Agreement is 12 months commencing 8 March 2011. The services are provided through Mr Alkis' consultancy company, The RHA Group LLC;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A consulting fee of US\$120,000 per year and the issue of 750,000 options at an exercise price of 15 cents and 750,000 options at an exercise price of 20 cents, expiring 31 December 2015 subject to vesting conditions. ;
- Termination: This is a fixed term contract. Renewal to be subject to negotiation.

#### **Mr John Almond, Business Development Manager Europe**

- Term: the initial term of the Service Agreement is 12 months commencing on 29 March 2010.
- Place of Work: United Kingdom for the term of employment.
- Salary: A salary of A \$120,000 per year (inclusive of director's fees). The Company may also pay Mr Almond additional remuneration in the form of a performance-based bonus over and above the salary;
- Termination: Mr Almond may terminate the Service Agreement without cause upon giving 9 months written notice to the Company or 3 months notice should the Company so elect. The Company may at its sole discretion terminate the employment without cause by giving 3 months written notice to Mr Almond and making a payment of 9 months' salary after the expiry of the 3 months written notice period.

#### **Mr Bob Brookins, Chief Technology Officer**

- Term: the initial term of the Service Agreement is 1 August 2011 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\$120,000 per year. Agreed to the issue of 2,000,000 options of the Company at an exercise price of 15 cents and 1,000,000 options at an exercise price of 25 cents, expiring 31 December 2015, subject to vesting conditions;
- Termination: Mr Brookins may terminate the Service Agreement without cause upon giving 6 months written notice to the Company. The Company may at its sole discretion terminate the employment without cause by giving 6 months written notice to Mr Brookins or make a payment of 6 months salary in lieu of notice.

The following table discloses the remuneration of the current directors and executives during the financial year from the Company:

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2011

	Short-term benefits			Post-employment Super-annuation	Termination Benefits	Share-based payments	Total	Proportion related to performance <sup>(2)</sup>	Remuneration consisting of options
	Salary and fees	Bonus	Other benefits						
	\$	\$	\$		\$	\$	\$	%	%
<b><u>Directors</u></b>									
Mr G Rezos <sup>(1)</sup>	67,806	-	-	5,400	-	-	73,206	-	-
Mr S Ribich <sup>(3)</sup>	173,326	-	15,421	-	42,061	(1,810)	228,998	2	2
Mr C Smith-Gander	25,000	-	-	2,250	-	-	27,250	-	-
Mr S Susta	160,915	-	12,620	-	-	-	173,535	-	-
<b>Total Directors</b>	427,047	-	28,041	7,650	42,061	(1,810)	502,989		
<b><u>Executives</u></b>									
Mr J Almond <sup>(2)</sup>	159,304	-	-	-	-	5,430	164,734	3	3
Dr B Brookins	96,526	-	11,839	-	-	13,204	121,569	-	-
Mr H Alkis	40,151	-	-	-	-	36,862	77,013		
Mr N Clark	77,390	-	-	-	-	32,565	109,955	-	30
<b>Total Executives</b>	373,371	-	11,839	-	-	88,061	473,271		
<b>Total Directors and Executives</b>	800,418	-	39,880	7,650	42,061	86,251	976,260		

- (1) Viaticus Capital Pty Ltd, a related party of G Rezos, also received the following:
- \$89,086 (2010: Nil) during the financial year for reimbursement of salary and wages in relation to administration and bookkeeping personnel. In 2010 \$38,500 was paid to Albion Capital Partners, a related party of G Rezos, for the reimbursement of providing management, administration and accounting personnel.
  - \$45,000 (2010: \$13,548) for investor relations services.
  - 2.5 million options at a deemed value of \$45,988 to compensate Viaticus for its part in assisting the Company to achieve its successful listing of the Company on the Frankfurt Stock Exchange.
- (2) Share based payment to J Almond is calculated based on performance shares/options issued for services rendered under the successful completion of the Alexium Limited acquisition and expensed in 2011 financial year.
- (3) Remuneration received up to date of resignation. S Ribich's resignation resulted in the forfeiture of his options. Any share based payment expense previously recognised under AASB 2 in respect of the options has been reversed. Since resigning as a director, S Ribich received \$5,000 in consulting fees and further \$10,000 is owing for services incurred to 30 June 2011.

There were no other executives of the company which require disclosure.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2010

	Short-term benefits			Post-employment Super-annuation	Share-based payments	Total	Proportion related to performance <sup>(4)</sup>	Remuneration consisting of options
	Salary and fees	Bonus	Other benefits					
	\$	\$	\$				%	%
<b><u>Directors</u></b>								
Mr G Rezos <sup>(1)(2)(5)</sup>	28,368	-	-	2,293	19,442	50,103	-	38.80
Mr S Ribich <sup>(3)</sup>	82,876	-	3,509	-	34,213	120,598	28.37	28.37
Mr C Smith-Gander	15,972	-	-	1,437	12,961	30,370	-	42.68
Mr S Susta <sup>(3)</sup>	37,227	-	-	-	19,442	56,669	-	34.31
Mr J Mann	806	-	-	-	-	806	-	-
Mr A Finlay	6,800	-	-	-	-	6,800	-	-
Mrs N Donovan <sup>(2)</sup>	46,664	-	-	810	-	47,474	-	-
<b>Total Directors</b>	218,713	-	3,509	4,540	86,058	312,820		
<b><u>Executives</u></b>								
Mr J Almond <sup>(3)</sup>	60,707	-	-	-	34,213	94,920	36.04	36.04
Mrs N Donovan <sup>(2)</sup>	37,017	-	-	-	-	37,017	-	-
Dr B Brookins <sup>(3)</sup>	15,229	-	-	-	-	15,229	-	-
<b>Total Executives</b>	112,953	-	-	-	34,213	147,166		
<b>Total Directors and Executives</b>	331,666	-	3,509	4,540	120,271	459,986		

- (1) Albion Capital Partners, a related party of G Rezos, was also paid \$38,500 (2009: \$92,500) during the financial year in relation to providing management, administration and accounting personnel prior to the Alexium Limited acquisition. Viaticus Capital Pty Ltd, a related party of G Rezos, also received the following:
- \$13,548 (2010: Nil) for investor relations services.
  - \$50,000 (2010: Nil) for the successful completion of the Alexium Limited acquisition.
  - 2.5 million shares, 2.5 million performance shares and 750,000 options with a total deemed value at \$609,721 under the Alexium Limited acquisition agreement.
- (2) Remuneration for N Donovan includes company secretarial and financial accounting fees paid indirectly through Albion Capital Partners totalling \$38,664 up to the date of resignation as a director. Since resigning as a director N Donovan continued to receive company secretarial and financial accounting fees up to 30 June 2010 totalling \$37,017, paid to Blackwood Pty Ltd.
- (3) Remuneration paid from date of acquisition of Alexium Limited being 26 February 2010.
- (4) Calculation based on performance shares/options issued for services rendered under the successful completion of the Alexium Limited acquisition.
- (5) In the 2010 annual report the salary and fees disclosed for G Rezos included consultation fees of \$63,548 and share-based payments was \$609,721 which were issued to Viaticus Capital Pty Ltd, or its nominee, and related specifically to services provided by Viaticus Pty Ltd for the Alexium acquisition and investor relations services. Viaticus Pty Ltd is a related party of G. Rezos and it is therefore considered appropriate to remove the amounts from his personal remuneration disclosed in the table and disclose as a note to the table.

#### Value of shares and options issued to directors and executives

The directors and executives of the Company were issued with the following share-based remuneration during the year:

- 6.5 million ESOP Options (2010: nil) with a value of \$82,631 (2010: nil);

#### Options and rights over equity instruments granted as compensation - audited

Details on options over ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on options that vested during the reporting period are as follows:

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

Name	Number of options granted during 2011	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2011
<b><u>Executives</u></b>							
Mr H Alkis	750,000	09/03/11	09/03/11	0.028779	0.15	31/12/15	750,000
	750,000	09/03/11	09/03/11	0.020370	0.20	31/12/15	750,000
Mr B Brookins	1,000,000	21/03/11	21/03/12	0.028611	0.15	31/12/15	-
	1,000,000	21/03/11	21/03/13	0.028611	0.15	31/12/15	-
	1,000,000	21/03/11	21/03/14	0.014719	0.25	31/12/15	-
Mr N Clark	1,000,000	21/03/11	24/06/11	0.028611	0.15	31/12/15	1,000,000
	1,000,000	21/03/11	21/03/13	0.028611	0.15	31/12/15	-

Since the end of the financial year, 5 million unlisted options exercisable at 15 cents were issued to directors as approved by shareholders on 16 September 2011. The options are subject to vesting conditions and expire 31 December 2015.

The options were provided at no cost to the recipients.

#### Analysis of options and rights over equity instruments granted as compensation - audited

Details of vesting profiles of the options granted as remuneration to each key management person of the Group and each of the five named Company executives and Group executives are detailed below.

Name	Number	Grant date	% vested in year	% forfeited in year	Financial years in which grant vests
<b><u>Directors</u></b>					
Mr S Ribich #	2,500,000	26/02/10	0	100	-
<b><u>Executives</u></b>					
Mr J Almond	2,500,000	26/02/10	0	0	(1)
Mr H Alkis	1,500,000	09/03/11	100	0	2011
Mr B Brookins	1,000,000	21/03/11	0	0	2012
	1,000,000	21/03/11	0	0	2013
	1,000,000	21/03/11	0	0	2014
Mr N Clark	1,000,000	21/03/11	100	0	2011
	1,000,000	21/03/11	0	0	2013

# Balance at date of resignation

- (1) The exercise of the 1.25m 40 cent options and 1.25m 50 cent options is conditional on the Group achieving certain performance hurdles. Details of the performance criteria are included in the long-term incentives details in note 14.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### Analysis of movements in options - audited

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each key management person and each of the five named Company executives and relevant Group executives is detailed below.

Name	Granted in year \$ (A)	Value of options exercised in year \$ (B)	Lapsed in year \$(c)
<b><u>Directors</u></b>			
Mr S Ribich	-	-	937
<b><u>Executives</u></b>			
Mr H Alkis	36,862	-	-
Mr B Brookins	71,941	-	-
Mr N Clark	57,222	-	-

- (A) The value of options granted in the year is the fair value of the options calculated at grant date using the Black Scholes option-pricing model. The total value of the options granted is included in the table above. This amount is allocated to remuneration over the vesting period.
- (B) The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.
- (C) The value of the options that lapsed during the year represents the benefit forgone and is calculated at the date the option lapsed using the Black Scholes option-pricing model assuming the performance criteria had been achieved.

#### Equity instrument disclosures relating to key management personnel

##### (i) Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director and executive of Alexium International Group Limited, including their personally related parties, are set out below.

#### 2011

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
<b><u>Directors</u></b>						
Mr G Rezos	4,900,000	-	-	2,500,000	7,400,000	7,400,000
Mr S Ribich #	5,000,000	-	-	(5,000,000)	-	-
Mr C Smith-Gander	1,000,000	-	-	-	1,000,000	1,000,000
Mr S Susta	1,500,000	-	-	-	1,500,000	1,500,000
<b>Total Directors</b>	12,400,000	-	-	2,500,000	14,900,000	12,400,000
<b><u>Executives</u></b>						
Mr H Alkis *	-	1,500,000	-	-	1,500,000	1,500,000
Mr J Almond	5,000,000	-	-	-	5,000,000	2,500,000
Dr B Brookins	-	3,000,000	-	-	3,000,000	-
Mr N Clark *	-	2,000,000	-	-	2,000,000	1,000,000
<b>Total Executives</b>	5,000,000	6,500,000	-	-	11,500,000	5,000,000
<b>Total Directors and Executives</b>	17,400,000	6,500,000	-	2,500,000	26,400,000	17,400,000

\* Balance at date of appointment

# Balance at date of resignation

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2010

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
<b><u>Directors</u></b>						
Mr G Rezos *	2,600,000	1,500,000	-	800,000	4,900,000	4,900,000
Mr S Ribich **	-	5,000,000	-	-	5,000,000	2,500,000
Mr C Smith-Gander *	-	1,000,000	-	-	1,000,000	1,000,000
Mr S Susta **	-	1,500,000	-	-	1,500,000	1,500,000
Mr J Mann # +	1,175,000	-	-	-	1,175,000	1,175,000
Mr A Finlay #	-	-	-	-	-	-
Mrs N Donovan #	-	-	-	-	-	-
<b>Total Directors</b>	<b>3,775,000</b>	<b>9,000,000</b>	<b>-</b>	<b>800,000</b>	<b>13,575,000</b>	<b>11,075,000</b>
<b><u>Executives</u></b>						
Mr J Almond**	-	5,000,000	-	-	5,000,000	2,500,000
Dr B Brookins	-	-	-	-	-	-
<b>Total Executives</b>	<b>-</b>	<b>5,000,000</b>	<b>-</b>	<b>-</b>	<b>5,000,000</b>	<b>2,500,000</b>
<b>Total Directors and Executives</b>	<b>3,775,000</b>	<b>14,000,000</b>	<b>-</b>	<b>800,000</b>	<b>18,575,000</b>	<b>13,575,000</b>

\* Balance at date of appointment

\*\* Balance at date of Alexium Limited acquisition

# Balance at date of resignation

+ Post consolidation (1:10)

#### (ii) Share holdings

The number of shares in the Company held during the financial year by each director and executive of Alexium International Group Limited, including their personally related parties, is set out below. There were no shares granted during the reporting year as compensation.

2011

Name	Balance at start of year ORDINARY SHARES	Balance at start of year PERFORMANCE SHARES	Received during year on exercise of options	Other changes during year ORDINARY SHARES	Other changes during year PERFORMANCE SHARES	Balance at end of year ORDINARY SHARES	Balance at end of year PERFORMANCE SHARES
	Number	Number	Number	Number	Number	Number	Number
<b><u>Directors</u></b>							
Mr G Rezos	11,461,147	2,500,000	-	1,324,810	-	12,785,957	2,500,000
Mr S Ribich #	18,344,143	27,915,000	-	-	-	18,344,143	27,915,000
Mr C Smith-Gander	114,286	-	-	-	-	114,286	-
Mr S Susta	-	-	-	-	-	-	-
<b>Total Directors</b>	<b>29,919,576</b>	<b>30,415,000</b>	<b>-</b>	<b>1,324,810</b>	<b>-</b>	<b>31,244,386</b>	<b>30,415,000</b>
<b><u>Executives</u></b>							
Mr H Alkis	-	-	-	-	-	-	-
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr N Clarke *	-	-	-	-	-	-	-
<b>Total Executives</b>	<b>14,513,000</b>	<b>22,085,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,513,000</b>	<b>22,085,000</b>
<b>Total Directors and Executives</b>	<b>44,432,576</b>	<b>52,500,000</b>	<b>-</b>	<b>1,324,810</b>	<b>-</b>	<b>45,757,386</b>	<b>52,500,000</b>

\* Balance at date of appointment

# Balance at date of resignation

+ Post consolidation (1:10)

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2010

Name	Balance at start of year ORDINARY SHARES	Balance at start of year PERFORMANCE SHARES	Received during year on exercise of options	Other changes during year ORDINARY SHARES	Other changes during year PERFORMANCE SHARES	Balance at end of year ORDINARY SHARES	Balance at end of year PERFORMANCE SHARES
	Number	Number	Number	Number	Number	Number	Number
<b><u>Directors</u></b>							
Mr G Rezos *	5,496,695	-	-	5,964,452	2,500,000	11,461,147	2,500,000
Mr S Ribich *	18,344,143	27,915,000	-	-	-	18,344,143	27,915,000
Mr C Smith-Gander *	-	-	-	114,286	-	114,286	-
Mr S Susta *	-	-	-	-	-	-	-
Mr J Mann * # +	1,600,000	-	-	-	-	1,600,000	-
Mr A Finlay * # +	220,000	-	-	-	-	220,000	-
Mr N Donovan * # +	200,000	-	-	-	-	200,000	-
<b>Total Directors</b>	25,860,838	27,915,000	-	6,078,738	2,500,000	31,939,576	30,415,000
<b><u>Executives</u></b>							
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
<b>Total Executives</b>	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
<b>Total Directors and Executives</b>	40,373,838	50,000,000	-	6,078,738	2,500,000	46,452,576	52,500,000

\* Balance at date of appointment

# Balance at date of resignation

+ Post consolidation (1:10)

#### (iii) Performance Shares

On 26 February 2010 a total of 52,500,000 performance shares were granted (26,250,000 Class A Performance Shares and 26,250,000 Class B Performance Shares) and are subject to ASX approved performance criteria.

The terms and conditions attached to each class of performance shares are detailed in note 14.

## DIRECTORS' MEETINGS

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

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

Board Member	Board Meetings held while Director	Attended	Circular Resolutions Passed	Total
Gavin Rezos	10	10	5	15
Stephen Ribich	6	6	4	10
Craig Smith-Gander	10	10	5	15
Stefan Susta	10	10	5	15

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

#### Dates of Board Meetings and Circulating Resolutions

Board Meetings	Circular Resolutions
20 July 2010	15 September 2010
7 September 2010	30 September 2010
13 October 2010	7 December 2010
10 November 2010	9 February 2011
7 December 2010	22 March 2011
9 February 2011	
8 March 2011	
5 April 2011	
3 May 2011	
7 June 2011	

#### **INSURANCE OF OFFICERS**

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

#### **PROCEEDINGS ON BEHALF OF THE COMPANY**

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

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

#### **ROUNDING OFF 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.

#### **NON-AUDIT SERVICES**

During the year no non-audit services were provided by the Company's auditor, Stantons International.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

The auditor's independence declaration is included on page 22 of the financial report.

Dated this 28<sup>th</sup> day of September 2011.

Signed in accordance with a resolution of the directors.



**Gavin Rezos**  
Executive Chairman

## **CORPORATE GOVERNANCE STATEMENT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

Alexium International Group Limited is committed to best practice corporate governance, and has reviewed all practices in line with ASX Corporate Governance Council's principles of good corporate governance and best practice recommendations.

Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed the ASX Principles, and if any of the recommendations have not been followed then the Company must explain why not.

The Company is considered a 'micro cap' listing, and accordingly some of the principles and recommendations are unable to be achieved in a cost effective or practical manner, having regard for the resources available. These issues are still considered important in our corporate governance system, and alternate but less formal policies exist to ensure integrity in these areas. The Council recognises that the same efficiencies experienced by larger entities may not be apparent for smaller companies by adopting certain principles or recommendations.

Notwithstanding this, the board has made every effort to address each principle and effect suitable policies or strategies where possible. Corporate governance information, policies and charters are publicly available via the company's web site.

Detailed below are comments made in relation to the company's policies for each ASX Corporate Governance Council principle.

#### **Principle 1 – Lay solid foundations for management and oversight**

Alexium International Group Limited supports a clear segregation of duties between management and the board of directors.

The board has a formal charter detailing its functions, structure and responsibilities, which is available on the company's website. The board delegates responsibility for the day-to-day operations and administration of the Company to the Managing Director.

The board monitors the performance of senior management, including measuring actual performance against planned performance.

#### **Principle 2 – Structure the board to add value**

The objective of this principle is to have a board of an effective composition, size and commitment to adequately discharge its responsibilities and duties. As a smaller company, our aim is to achieve an appropriate balance between the level of independence, and maintaining sufficient experience and competence for the board to fulfil its objectives.

The board currently consists of the following directors, whose experience and expertise are detailed in the directors' report:

Mr G Rezos Executive Chairman	Not independent due to being a substantial shareholder and employed in an executive capacity.
Mr Stefan Susta Executive Director	Not independent as a member and management involved on a day to day basis.
Mr Craig Smith-Gander Non-Executive Director	Meets all criteria of independent director.

Currently only one Board member is considered to be independent.

Due to Mr Rezos not meeting the independent status, the Company is unable to meet recommendation 2.2 of the ASX Corporate Governance Council that states the chair should be an independent director.

## **CORPORATE GOVERNANCE STATEMENT**

---

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

The board does not believe that restructuring the board to achieve a majority of independent directors or for the chair to be independent would be in the best interests of shareholders, given the size and resources of the company at this time.

The board has not established a nomination committee as yet given its size. The board as a whole will serve as a nomination committee in the Company's formative period.

#### **Principle 3 – Promote ethical and responsible decision-making**

The board has established a code of conduct to promote a continued ethical and responsible decision making process for directors and key executives. The code of conduct is publicly available via the company's website.

The Company has also developed and communicated a formal policy to officers and employees for trading in the company's shares, to complement the existing statutory restrictions such as the Corporations Act 'insider trading' provisions.

Directors must advise the Company of any dealings in the Company's shares, and the Company is required to advise the ASX of these transactions within 5 business days.

#### Securities Trading by Directors and Employees

The Company adopted a Share Trading Policy on 23 December 2010. The policy summarises the law relating to insider trading and sets out the policy of the Company on Directors, officers, employees and consultants dealing in securities of the Company. This policy is provided to all Directors and employees and compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

#### Gender Diversity Policy

The Company does not currently have a Gender Diversity policy in place and is therefore not in compliance with recommendation 3.2 of the ASX Corporate Governance Principles and Recommendations during the financial year. The Company does not consider it appropriate to have such a policy at this stage of the Company's development. The Board will continue to review the development of the Company and will adopt a Gender Diversity Policy at the appropriate time.

#### **Principle 4 – Safeguard integrity in financial reporting**

The Company does not have an audit committee, as it is considered that efficiencies would be outweighed by the costs of its formation, given the size and resources of the company. However, the board reviews all external audit reports to ensure appropriate action is taken by management regarding any areas which are identified as a weakness in internal control, reviews the existing external audit arrangements, and oversees the financial reporting process.

The Board of Directors of the Company is directly responsible for the following primary functions of an audit committee:

- (a) ensuring appropriate Group accounting policies and procedures are defined, adopted and maintained;
- (b) ensuring that Group operating and management reporting procedures, and the system of internal control, are of a sufficiently high standard to provide timely, accurate and relevant information as a sound basis for management of the Group's business;
- (c) reviewing the Group Financial Statements and approval thereof;
- (d) reviewing the scope of work including approval of strategic and annual audit plans and effectiveness of both the external and internal audit functions across the Group;
- (e) monitoring the proper operation of and issues raised;

## **CORPORATE GOVERNANCE STATEMENT**

---

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

- (f) ensuring that appropriate processes are in place to ensure compliance with all legal requirements affecting the Group;
- (g) ensuring that all internal and industry codes of conduct and standards of corporate behaviour are being complied with;
- (h) appointment of a person(s) responsible for Internal Audit functions as specified from time to time;
- (i) responsible for making recommendations to the board of directors on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), monitoring of effectiveness, and independence of the external auditors.
- (j) actioning any other business processes or functions which may be referred to it by the Board of Directors.

The board is also responsible for nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year statutory audit or review. External audit engagement partners are rotated every 5 years.

#### **Principle 5 – Make timely and balanced disclosure**

Alexium International Group Limited is committed to ASX continuous disclosure provisions, and ensures that all relevant information concerning the Company is made available to investors on an equal and timely basis. Continuous disclosure is included as a recurring agenda item at each board meeting held.

The Company has incorporated a policy on continuous disclosure into its code of conduct document, which has been promoted to all officers and employees, and is available publicly on the Company's website.

#### **Principle 6 – Respect the rights of shareholders**

The Company promotes active and informed shareholding, and welcomes questions from shareholders at any time. At the Company's annual AGM, shareholders are given every opportunity to participate at question time, and may submit written questions to the board or auditors prior to the meeting.

The external auditor is required to attend the AGM and is available to answer any shareholder questions regarding the conduct of the audit, and the preparation and content of the auditor's report.

Significant company announcements are posted immediately on the company's website.

In addition, the board has created a specific section on the Company's website for corporate governance information.

#### **Principle 7 – Recognise and manage risk**

The board is responsible for overseeing and assessing the effectiveness of the risk management policy.

The Chief Executive Officer and/or Managing Director is responsible for implementing the policy and regularly reporting to the board.

In addition, risk management is a recurring agenda item at board meetings to ensure risk is considered and managed at all times.

The Company has prepared a formal risk management document to describe policy to profile, manage, control and assess risk.

#### **Principle 8 – Remunerate fairly and responsibly**

The board has established a Remuneration Policy as part of its Corporate Governance Policy. The board has decided at this time not to establish a separate remuneration committee due to the current size of the entity and its operations. Therefore the board will be responsible for determining and reviewing compensation arrangements for the directors themselves and the chief executive officer and the executive team. The board will in due course establish a remuneration committee, comprising two directors and operating under a board approved terms of reference.

## **CORPORATE GOVERNANCE STATEMENT**

---

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

The Company has prepared a formal charter which sets out the role and responsibilities of the board and has established a remuneration policy. Both the charter and remuneration policy are publicly available via the Company's website.

Non-executive directors are remunerated by way of fees, which is clearly distinguished from the remuneration for executive directors and senior executive. The Company does not have any schemes for retirement benefits, other than statutory superannuation.

For personal use only

28 September 2011

Board of Directors  
Alexium International Group Limited  
Level 28, AMP Tower,  
140 St George's Terrace,  
PERTH WA 6000

Dear Directors

**RE: ALEXIUM INTERNATIONAL GROUP LIMITED**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Alexium International Group Limited.

As Audit Director for the audit of the financial statements of Alexium International Group Limited for the year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LIMITED**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**



**J P Van Dieren**  
**Director**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2011**

**ALEXIUM INTERNATIONAL GROUP LIMITED**

		<b>Consolidated Group</b>	
		<b>2011</b>	<b>2010</b>
		<b>\$</b>	<b>\$</b>
	<b>Note</b>		
Revenue from continuing operations	3	72,034	50,923
Cost of goods sold		(212,075)	(173,822)
Employee benefits expense		(1,313,919)	(433,862)
Depreciation and amortisation	4	(794,273)	(239,652)
Share-based payments	15	(154,696)	(746,195)
Impairment	11	(24,694)	(3,465,442)
Other expenses		(855,398)	(810,803)
Net trading profit/(loss)		(3,283,021)	(5,818,853)
Finance income	3	79,277	42,149
Loss before income tax		(3,203,744)	(5,776,704)
Income tax (expense)/benefit	6	274,380	-
Loss for the year		(2,929,364)	(5,776,704)
Other comprehensive income, net of income tax			
Exchange differences on translation of foreign operations		(201,471)	(33,000)
Total comprehensive loss for the year		(3,130,835)	(5,809,704)
Loss for the year attributable to members of the group		(2,929,364)	(5,776,704)
Total comprehensive loss for the year attributable to members of the group		(3,130,835)	(5,809,704)
Basic loss per share (cents)	7	(2.37)	(9.92)
Diluted loss per share (cents)	7	(2.37)	(9.92)

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION****AS AT 30 JUNE 2011****ALEXIUM INTERNATIONAL GROUP LIMITED**

		Consolidated Group	
		2011	2010
	Note	\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	18(a)	1,972,737	3,303,043
Trade and other receivables	8	19,268	65,443
Other assets	9	37,083	53,641
<b>Total Current Assets</b>		<u>2,029,088</u>	<u>3,422,127</u>
<b>Non-Current Assets</b>			
Other financial assets		3,868	4,786
Property, plant and equipment	10	343,237	140,322
Intangible assets	11	11,100,972	11,782,498
<b>Total Non-Current Assets</b>		<u>11,448,077</u>	<u>11,927,606</u>
<b>Total Assets</b>		<u>13,477,165</u>	<u>15,349,733</u>
<b>Current Liabilities</b>			
Trade and other payables	12	177,831	240,618
Provisions		10,690	4,132
Other - deferred income	13	62,865	13,850
<b>Total Current Liabilities</b>		<u>251,387</u>	<u>258,600</u>
<b>Non-Current Liabilities</b>			
Deferred tax liability	6	3,191,062	3,465,442
Other - deferred income	13	62,865	27,700
<b>Total Current Liabilities</b>		<u>3,253,927</u>	<u>3,493,142</u>
<b>Total Liabilities</b>		<u>3,505,313</u>	<u>3,751,742</u>
<b>Net Assets</b>		<u>9,971,852</u>	<u>11,597,991</u>
<b>Equity</b>			
Contributed equity	14	18,516,070	17,197,558
Reserves	16	163,414	178,701
Accumulated losses	17	(8,707,632)	(5,778,268)
<b>Total Equity</b>		<u>9,971,852</u>	<u>11,597,991</u>

This 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 2011**

**ALEXIUM INTERNATIONAL GROUP LIMITED**

	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2010</b>	<b>17,197,558</b>	<b>178,701</b>	<b>(5,778,268)</b>	<b>11,597,991</b>
Loss for the year	-	-	(2,929,364)	(2,929,364)
Foreign currency translation	-	(201,471)	-	(201,471)
Total comprehensive loss for the year	-	(201,471)	(2,929,364)	(3,130,835)
Transactions with owners in their capacity as owners:				
Shares issued	1,530,000	-	-	1,530,000
Share issue costs	(211,488)	-	-	(211,488)
Share-based payment	-	154,696	-	154,696
Share-based payment-capital raising costs	-	31,488	-	31,488
<b>Balance at 30 June 2011</b>	<b>18,516,070</b>	<b>163,414</b>	<b>(8,707,632)</b>	<b>9,971,852</b>

	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
<b>Balance at 1 July 2009</b>	<b>65,222,622</b>	<b>700</b>	<b>(64,620,189)</b>	<b>603,133</b>
Loss for the year	-	-	(5,776,704)	(5,776,704)
Foreign currency translation	-	(33,000)	-	(33,000)
Total comprehensive loss for the year	-	(33,000)	(5,776,704)	(5,809,704)
Transactions with owners in their capacity as owners:				
<u>Pre-consolidation</u>				
Capital reduction	(64,618,625)	-	64,618,625	-
Shares issued	3,000,000	-	-	3,000,000
<u>Post-Consolidation</u>				
Shares issued	14,100,000	-	-	14,100,000
Share issue costs	(371,479)	-	-	(371,479)
Share buy back, net of costs	(134,960)	-	-	(134,960)
Share-based payment	-	211,001	-	211,001
<b>Balance at 30 June 2010</b>	<b>17,197,558</b>	<b>178,701</b>	<b>(5,778,268)</b>	<b>11,597,991</b>

This 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 2011**

**ALEXIUM INTERNATIONAL GROUP LIMITED**

		Consolidated Group	
		2011	2010
	Notes	\$	\$
<b>Cash flow from operating activities</b>			
Receipts from customers		50,329	-
Payments to suppliers and employees		(2,515,011)	(1,375,174)
Interest received		79,277	42,149
Goods & services tax (paid)/received from ATO		49,195	64,904
<b>Net cash flows used in operating activities</b>	18(b)	<u>(2,336,210)</u>	<u>(1,268,121)</u>
<b>Cash flows from investing activities</b>			
Increase in intangibles		(51,317)	(37,992)
Purchase of property, plant and equipment		(158,995)	(17,837)
Website development		(22,760)	-
Due from other entities (deposit)		-	(995)
Loan to related entities		-	(363,445)
Cash acquired on acquisition of Alexium		-	370,917
<b>Net cash flows used in investing activities</b>		<u>(233,072)</u>	<u>(49,352)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		1,350,000	4,500,000
Payment of share issue costs		-	(398,123)
Payment for unmarketable parcel share buy-back		-	(108,315)
<b>Net cash flows from/(used in) financing activities</b>		<u>1,350,000</u>	<u>3,993,562</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(1,219,282)</u>	<u>2,676,089</u>
Cash and cash equivalents at beginning of year		3,303,043	628,164
Effect of exchange rate changes on cash and cash equivalents		<u>(111,024)</u>	<u>(1,210)</u>
<b>Cash and cash equivalents at end of year</b>	18(a)	<u>1,972,737</u>	<u>3,303,043</u>

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

**1. CORPORATE INFORMATION**

Alexium International Group Limited ("the Company") 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. 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 financial report was authorised for issue by the directors on 28 September 2011 in accordance with a resolution of the directors.

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.

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 24.

**(b) Changes in accounting policy**

**New Accounting Standards and Interpretations**

The following new standards and amendments to standards are mandatory for the financial year beginning 1 July 2010:

- (i) AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 and 139)*;
- (ii) AASB 2010-3 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 3, 7, 121, 128, 131, 132 and 139)*;
- (iii) AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments and AASB 2009-13 Amendments to Australian Accounting Standards arising from Interpretation 19*.

The adoption of these standards did not have any impact in the current period or any prior period and is unlikely to affect future periods.

**New Accounting Standards and Interpretations that are not yet mandatory**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- (i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013).

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. When adopted, the standard is not expected to impact on the Group's accounting for financial assets as it does not have any available for sale assets other than equity investments. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The Group has decided not to early adopt AASB 9.

- (ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

**(c) Basis of consolidation**

A controlled entity is any entity Alexium International Group Limited has the power to govern the financial and operating policies so as to obtain benefits from its activities. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are considered.

A list of controlled entities is contained in note 21 to the financial statements.

As at reporting date, the assets and liabilities of all controlled entities have been incorporated into the consolidated financial statements as well as their results for the year then ended.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits have been eliminated on consolidation. Unrealised losses are eliminated unless costs cannot be recovered.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

Subsidiaries are consolidated from the date on which control is transferred to the group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which Alexium International Group Limited has control.

Minority interests not held by the Group are allocated their share of net profit after tax in the income statement and are presented within equity in the consolidated statement of financial position, separately from parent shareholders' equity.

**(d) Foreign currency translation**

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

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

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

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

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

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

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

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

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the statement of comprehensive income.

**(e) Property, plant and equipment**

**(i) 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 (g)).

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.

**(ii) Leased assets**

Leases in terms of which the consolidated entity assumes substantially all the risks and rewards of ownership are classified as finance leases. These finance leases are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease. Lease payments are accounted for as described in accounting policy (l).

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the consolidated entity are classified as operating leases (note 10). Payments made under operating leases are charged to the profit and loss on a straight-line basis over the period of the lease.

**(iii) 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 the statement of comprehensive income as an expense as incurred.

**(iv) Depreciation**

Depreciation is charged to the statement of 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:

Plant and equipment	over 3 to 50 years
Leased plant and equipment	over 3 to 50 years

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

**(f) Intangible assets**

**(i) Goodwill**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is no longer amortised but is tested annually for impairment.

**(ii) Acquired both separately and from a business combination**

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

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, excluding development costs, created within the business are not capitalised and expenditure is charged against the income statement in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite life intangibles annually, either individually or at the cash generating unit level (see accounting policy (g)). Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

**(iii) Other intangible assets**

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

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

**(iv) 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 expenditure is expensed as incurred.

**(v) Amortisation**

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

Goodwill and intangible assets with an indefinite life are systematically tested for impairment at each balance sheet date. Capitalised development costs and patents and trademarks with a finite life are amortised 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 statement of comprehensive income when the asset is derecognised.

**(g) 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.

**(h) 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.

**(i) Determination and presentation of operating segments**

The Company 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 Company operates under one operating segment.

**(j) 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.

**(k) Trade and other receivables**

Trade receivables, which generally have 30-90 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.

**(l) Leases**

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term. Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as the lease income. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

**(m) Investments**

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments which are classified as held for trading and available-for-sale are measured at fair value. Gains

and losses on investments held for trading are recognised in the statement of comprehensive income.

Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time cumulative gain or loss previously reported in equity is included in the statement of comprehensive income.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices as the close of business on the statement of financial position date.

**(n) 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.

**(o) 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.

**(p) 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.

**(q) 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.

*Interest income*

Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant year using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**(r) Income tax and other taxes**

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

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

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

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

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

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

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

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

*Other taxes*

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

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

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

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(s) 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 Company, adjusted for any bonus issue.

**(t) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**(u) Employee benefits**

*(i) 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.

*(ii) Short-term employee benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

*(iii) 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) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the strategic steering committee.

**(w) Government Grants**

Alexium Inc entered into a capital equipment lease from South Carolina Research Authority (SCRA) in the form of a grant. The grant is recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and are then recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**3. REVENUE**

	Consolidated Group	
	2011	2010
	\$	\$
Sales	5,019	50,923
Other income	67,015	-
	<u>72,034</u>	<u>50,923</u>
Interest received - other persons	<u>79,277</u>	<u>42,149</u>

**4. OTHER EXPENSES**

Minimum lease payments relating to operating leases	35,812	14,049
Foreign exchange loss	861	5,388

**5. AUDITORS' REMUNERATION**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated Group	
	2011	2010
	\$	\$
(a) PKF Chartered Accountants and Business Advisers		
- audit and review of financial reports	-	12,564
(b) Stantons International (Australia)		
- audit and review of financial reports	40,624	20,000
- other accounting services relating to the Alexium Limited Acquisition	-	33,043
(c) Williams, Benator & Libby (USA)		
- agreed upon procedures	12,547	-
	<u>53,171</u>	<u>65,607</u>

**6. TAXATION**

**(a) Income tax recognised in profit and loss**

Prima facie tax on operating loss before income tax at 30%	(961,124)	(1,733,011)
Tax effect of permanent and temporary differences	700,449	1,345,802
Tax loss/(gain) not brought to account	(13,705)	387,209
Income tax benefit attributable to operating loss	(274,380)	-

**(b) Deferred tax liabilities**

Deferred tax liabilities at 30 June brought to account:

Intangible assets	3,191,062	3,465,442
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**(c) Deferred tax assets**

Deferred tax assets at 30 June not brought to account:

Employee benefits	3,207	1,240
Other	14,089	6,589
Income tax losses	571,242	387,209
	588,538	395,038

Deferred tax assets arising from unconfirmed tax losses and capital losses not brought to account at balance date as realisation of the benefit is not probable.

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 there is virtual certainty of deriving assessable income of a nature and amount to enable such benefit to be realised.

The Group has estimated unrecouped income tax losses of \$1,904,140 (2010: \$1,290,695) 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 company/group in future periods.

**7. EARNINGS PER SHARE**

**Classification of securities as ordinary shares**

The Company 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

	Consolidated 2011 Number	Consolidated 2010 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	108,184,753	58,215,456
	\$	\$
Basic loss	(2,929,364)	(5,776,704)

This 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 2011 Number of securities	Consolidated 2010 Number of potential ordinary shares
Options over ordinary shares	37,790,000	28,000,000
Performance Shares	52,500,000	52,500,000
	90,290,000	80,500,000

**8. TRADE AND OTHER RECEIVABLES**

	Consolidated Group	
	2011	2010
	\$	\$
<b>Current</b>		
Trade debtors	9,838	52,693
Other receivables	9,430	12,750
	19,268	65,443

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

**9. OTHER ASSETS**

<b>Current</b>		
Prepayments	37,083	53,641

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**10. PROPERTY, PLANT & EQUIPMENT**

	Consolidated Group	
	2011	2010
	\$	\$
<b>Furniture and Equipment</b>		
Cost	243,725	113,444
Accumulated depreciation	(26,216)	(14,671)
Net book value	<u>217,509</u>	<u>98,773</u>
<b>Leased assets</b>		
Cost	188,730	41,549
Accumulated depreciation	(63,002)	-
Net book value	<u>125,728</u>	<u>41,549</u>
<b>Total property, plant and equipment</b>	<u>343,237</u>	<u>140,322</u>

**Movements in carrying amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Consolidated Group	
	2011	2010
	\$	\$
<b>Furniture &amp; equipment</b>		
Balance at the beginning of year	98,773	-
Additions at cost	141,434	113,444
Depreciation expense	(22,698)	(14,671)
	<u>217,509</u>	<u>98,773</u>
<b>Leased assets</b>		
Balance at the beginning of year	41,549	-
Additions at cost	147,181	41,549
Depreciation expense	(63,002)	-
	<u>125,728</u>	<u>41,549</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**11. INTANGIBLE ASSETS**

	Consolidated Group	
	2011	2010
	\$	\$
<b>Patents and intellectual property</b>		
Cost	12,045,195	12,018,148
Accumulated amortisation	(944,223)	(235,650)
Net carrying value	<u>11,100,972</u>	<u>11,782,498</u>

**Movements in carrying amounts**

Movement in the carrying amounts of intangible assets between the beginning and the end of the current financial year.

	Consolidated Group	
	2011	2010
	\$	\$
Balance at the beginning of year	11,782,498	-
Additions at cost <sup>(1)</sup>	27,047	12,018,148
Deferred tax liability arising from business combination	-	3,465,442
Impairment	-	(3,465,442)
Amortisation expense	(708,573)	(235,650)
	<u>11,100,972</u>	<u>11,782,498</u>

(1) Being the estimated fair values of patents, trademarks and intellectual property arising on the acquisition of Alexium Limited.

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the statement of 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 1 on significant accounting policies, amortisation will be calculated on a straight-line basis over the average useful life of the patents being 17 years.

**12. TRADE AND OTHER PAYABLES**

	Consolidated Group	
	2011	2010
	\$	\$
<b>Current</b>		
Trade creditors	133,968	210,426
Other creditors	<u>43,863</u>	<u>30,192</u>
	<u>177,831</u>	<u>240,618</u>

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

Trade and other creditor 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 Group	
	2011	2010
	\$	\$
Current - deferred income	62,865	13,850
Non-current - deferred income	62,865	27,700

The deferred income is in respect of a grant from South Carolina Research Authority (refer note 24(a)(ii)).

**14. CONTRIBUTED EQUITY**

**(a) Issued capital**

	Consolidated Group	
	2011	2010
	\$	\$
123,458,402 (2010: 107,871,688) Ordinary shares fully paid	16,416,070	15,097,558
26,250,000 (2010: 26,250,000) Performance Shares A	1,312,500	1,312,500
26,250,000 (2010: 26,250,000) Performance Shares B	787,500	787,500
Total issued capital	18,516,070	17,197,558

**(b) Movements in share capital**

	2011	2011	2010	2010
	Number	\$	Number	\$
Balance of ordinary shares at beginning of year	107,871,688	15,097,558	313,826,457	65,222,622
Reduction in capital	-	-	-	(64,618,625)
Shares issued	-	-	171,428,571	3,000,000
<i>Pre-consolidation balance</i>	-	-	485,255,028	3,603,997
1:10 Consolidation	-	-	48,528,072	3,603,997
Shares issued, net of costs	15,586,714	1,318,512	52,500,000	10,128,521
Shares issued – Prospectus	-	-	7,500,000	1,500,000
Unmarketable parcel share buy-back, net of costs	-	-	(656,384)	(134,960)
Balance of ordinary shares at end of year	123,458,402	16,416,070	107,871,688	15,097,558
Shares issued – Performance A*	26,250,000	1,312,500	26,250,000	1,312,500
Shares issued – Performance B*	26,250,000	787,500	26,250,000	787,500
		18,516,070		17,197,558

\* The performance shares were issued on 26 February 2010 and are subject to ASX approved performance criteria

(c) Terms and Conditions of Performance Shares

Performance Shares A

*Rights attaching to the Class A Performance Shares*

- (a) **(Class A Performance Shares)** Each Class A Performance Share is a share in the capital of the Company.
- (b) **(General Meetings)** The Class A Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.
- (c) **(No Voting Rights)** The Class A Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.
- (d) **(No Dividend Rights)** The Class A Performance Shares do not entitle the Holder to any dividends.
- (e) **(Rights on Winding Up)** The Class A Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of \$0.000001 per Class A Performance Share.
- (f) **(Not Transferable)** The Class A Performance Shares are not transferable.
- (g) **(Reorganisation of Capital)** If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (h) **(Application to ASX)** The Class A Performance Shares will not be quoted on ASX. However, upon conversion of the Class A Performance Shares into fully paid ordinary shares (**Shares**), the Company must within seven (7) days after the conversion, apply for the official quotation of the Shares arising from the conversion on ASX.
- (i) **(Participation in Entitlements and Bonus Issues)** Holders of Class A Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (j) **(No Other Rights)** The Class A Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

*Conversion of the Class A Performance Shares*

- (a) **(Conversion on achievement of milestone)** Each Class A Performance Share will convert into one Share upon satisfaction of the following performance hurdles to the reasonable satisfaction of the Company:
  - (i) The Company achieving audited revenues in any financial year of not less than \$3,000,000; or
  - (ii) The execution by the Company of unconditional sales contracts for its products in excess of \$5,000,000 in aggregate;
  - (iii) The execution by the Company of two unconditional joint venture agreements for the development of the Company's assets with either:
    - (A) significant internationally recognised companies; or
    - (B) companies recognised as leaders in their respective industry, in each case with upfront licence fees and royalties payable to the Company; or
  - (iv) The receipt of orders from the United States Department of Defence for the Company's products totalling in excess of \$3,000,000 in aggregate, within 3 years of the date of issue of the Class A Performance Shares (**Milestone**).

- (b) **(Redemption if Milestone not Achieved)** If a Milestone is not achieved by the required date, then each Class A Performance Share held by a Holder will be automatically redeemed by the Company for the sum of \$0.000001 within 10 Business Days of non satisfaction of the Milestone.
- (c) **(Conversion Procedure)** The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Class A Performance Shares into Shares.
- (d) **(Ranking of Class A Performance Shares)** The Shares into which the Class A Performance Shares will convert will rank pari passu in all respects with existing Shares.

#### **Performance Shares B**

##### ***Rights attaching to the Class B Performance Shares***

- (a) **(Class B Performance Shares)** Each Class B Performance Share is a share in the capital of the Company.
- (b) **(General Meetings)** The Class B Performance Shares shall confer on the holder (**Holder**) the right to receive notices of general meetings and financial reports and accounts of the Company that are circulated to shareholders. Holders have the right to attend general meetings of shareholders of the Company.
- (c) **(No Voting Rights)** The Class B Performance Shares do not entitle the Holder to vote on any resolutions proposed at a general meeting of shareholders of the Company.
- (d) **(No Dividend Rights)** The Class B Performance Shares do not entitle the Holder to any dividends.
- (e) **(Rights on Winding Up)** The Class B Performance Shares participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of \$0.000001 per Class B Performance Share.
- (f) **(Not Transferable)** The Class B Performance Shares are not transferable.
- (g) **(Reorganisation of Capital)** If at any time the issued capital of the Company is reconstructed, all rights of a Holder will be changed to the extent necessary to comply with the applicable ASX Listing Rules at the time of reorganisation.
- (h) **(Application to ASX)** The Class B Performance Shares will not be quoted on ASX. However, upon conversion of the Class B Performance Shares into fully paid ordinary shares (**Shares**), the Company must within seven (7) days after the conversion, apply for the official quotation of the Shares arising from the conversion on ASX.
- (i) **(Participation in Entitlements and Bonus Issues)** Holders of Class B Performance Shares will not be entitled to participate in new issues of capital offered to holders of Shares such as bonus issues and entitlement issues.
- (j) **(No Other Rights)** The Class B Performance Shares give the Holders no rights other than those expressly provided by these terms and those provided at law where such rights at law cannot be excluded by these terms.

##### ***Conversion of the Class B Performance Shares***

- (a) **(Conversion not to occur until Class A Performance Share milestones achieved)** No Class B Performance Share can be converted into a Share until such time as all performance hurdles for the Class A Performance Shares have been achieved.
- (b) **(Class A Performance Share milestones not to be considered in measuring Class B Performance Share milestones)** In calculating any amounts for determining the satisfaction of the Class B Performance Share milestones in paragraph (c) below, all amounts used in determining the satisfaction of the Class A Performance Share milestones shall be disregarded.

- (c) **(Conversion on achievement of milestone)** Each Class B Performance Share will convert into one Share upon satisfaction of the following performance hurdles to the reasonable satisfaction of the Company:
- (i) The Company achieving audited revenues in any financial year of not less than \$12,000,000; or
  - (ii) The execution by the Company of unconditional sales contracts for its products in excess of \$20,000,000 in aggregate;
  - (iii) The execution by the Company of an additional two unconditional joint venture agreements for the development of the Company's assets with either:
    - (A) significant internationally recognised companies; or
    - (B) companies recognised as leaders in their respective industry, in each case with upfront licence fees and royalties payable to the Company; or
  - (iv) The receipt of orders from the United States Department of Defence for the Company's products totalling in excess of \$12,000,000 in aggregate, within 5 years of the date of issue of the Class B Performance Shares **(Milestone)**.
- (d) **(Redemption if Milestone not Achieved)** If a Milestone is not achieved by the required date, then each Class B Performance Share held by a Holder will be automatically redeemed by the Company for the sum of \$0.000001 within 10 Business Days of non satisfaction of the Milestone.
- (e) **(Conversion Procedure)** The Company will issue the Holder with a new holding statement for the Shares as soon as practicable following the conversion of the Class B Performance Shares into Shares.
- (f) **(Ranking of Class B Performance Shares)** The Shares into which the Class B Performance Shares will convert will rank pari passu in all respects with existing Shares.

**(d) Share options issued**

At the year end there were 7,540,000 free attaching options outstanding (2010: 7,000,000) and 30,250,000 share based payment options outstanding (2010: 21,000,000). Refer to note 15 for details of the share based payment options outstanding.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**(e) Movements in share options**

	Grant date	Exercise Price	Expiry date	Balance at beginning of year *	Granted during the year	Exercised during the year	Lapsed/ Expired during the year	Balance at end of year
				Number	Number	Number	Number	Number
<b>2011 year</b>								
Unlisted options	19/06/08	\$0.10	31/12/12	7,000,000	-	-	-	7,000,000
Unlisted options	26/02/10	\$0.30	26/02/12	16,000,000	-	-	-	16,000,000
Unlisted options	26/02/10	\$0.40	26/02/12	2,500,000	-	-	(1,250,000)	2,500,000
Unlisted options	26/02/10	\$0.50	26/02/14	2,500,000	-	-	(1,250,000)	2,500,000
Unlisted options	30/07/10	\$0.30	31/12/14	-	2,500,000	-	-	2,500,000
Unlisted options	09/03/11	\$0.15	31/12/15	-	750,000	-	-	750,000
Unlisted options	21/03/11	\$0.15	31/12/15	-	6,750,000	-	-	6,750,000
Unlisted options	09/03/11	\$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	21/03/11	\$0.10	21/06/16	-	540,000	-	-	540,000
				28,000,000	12,290,000	-	(2,500,000)	37,790,000

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number
<b>2010 year</b>								
Unlisted options	19/06/08	\$0.10	31/12/12	7,000,000	-	-	-	7,000,000
Unlisted options	26/02/10	\$0.30	26/02/12	-	16,000,000	-	-	16,000,000
Unlisted options	26/02/10	\$0.40	26/02/12	-	2,500,000	-	-	2,500,000
Unlisted options	26/02/10	\$0.50	26/02/14	-	2,500,000	-	-	2,500,000
				7,000,000	21,000,000	-	-	28,000,000

No options expired during the periods covered by the above tables. 2.5 million options lapsed during the year.

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

**(f) Terms and conditions of contributed equity**

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

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

**(g) Capital Management**

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

**15. SHARE-BASED PAYMENTS**

**Shares**

There were no share based payment shares issued in 2011.

	2010 Number	2010 Value per Share \$	2010 \$
Share-based payments issued during the year for services received	2,500,000	0.20	500,000
Share-based payments issued during the year for Alexium Limited acquisition paid to vendors	50,000,000	0.20	10,000,000

The shares were issued in respect of the acquisition of Alexium Limited at a deemed value of 20 cents each.

**Performance Shares**

There were no share based payment performance shares issued in 2011.

	2010 Number	2010 Value per Share \$	2010 \$
Share-based payments issued during the year for:			
- services received	1,250,000	0.05	62,500
- services received	1,250,000	0.03	37,500
	<u>2,500,000</u>		<u>100,000</u>
Share-based payments issued during the year for:			
- payment to vendors	25,000,000	0.05	1,250,000
- payment to vendors	25,000,000	0.03	750,000
	<u>50,000,000</u>		<u>2,000,000</u>

The performance shares were issued in respect of the acquisition of Alexium Limited based on a deemed value of 20 cents discounted for the performance conditions of the performance shares.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

Options

	2011 Number	2011 Value per option \$	2011 \$
Share-based payments issued during the year for:			
- services rendered	2,500,000	0.018395	45,988
- services rendered	-	0.003928	1,228*
- services rendered	-	0.009519	1,488*
	<u>2,500,000</u>		<u>48,704</u>

\* Issue 26 February 2010 in respect of the acquisition of Alexium Limited however pro-rata over period of performance period.

Share-based payments issued during the year for:			
- ESOP	6,750,000	0.028611	66,869*
- ESOP	1,000,000	0.014719	1,356*
- ESOP	750,000	0.028779	21,585
- ESOP	750,000	0.020370	15,277
	<u>9,250,000</u>		<u>105,087</u>

\* Pro-rata over vesting period.

	2010 Number	2010 Value per option \$	2010 \$
Share-based payments issued during the year for:			
- services rendered	11,000,000	0.012961	142,574
- services rendered	2,500,000	0.003928	1,637*
- services rendered	2,500,000	0.009519	1,983*
	<u>16,000,000</u>		<u>146,194</u>

\* Pro-rata over period of performance period.

Share-based payments issued during the year for:			
- payment to vendors	<u>5,000,000</u>	0.012961	<u>64,806</u>

The options were issued in respect of the acquisition of Alexium Limited.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**Share Based Payment Options Issued**

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Other changes during the year Number	Balance at end of year Number	Vested and exercisable at the end of period Number
<b>2011 year</b>									
Unlisted options	26/02/10	\$0.30	26/02/12	11,000,000	-	-	-	11,000,000	11,000,000
Unlisted options	26/02/10	\$0.40	26/02/12	2,500,000	-	-	(1,250,000)	1,250,000	-
Unlisted options	26/02/10	\$0.50	26/02/14	2,500,000	-	-	(1,250,000)	1,250,000	-
Unlisted options	30/07/10	\$0.30	31/12/14	-	2,500,000	-	-	2,500,000	2,500,000
Unlisted options	21/03/11	\$0.15	31/12/15	-	7,500,000	-	-	7,500,000	2,000,000
Unlisted options	21/03/11	\$0.20	31/12/15	-	750,000	-	-	750,000	750,000
Unlisted options	21/03/11	\$0.25	31/12/15	-	1,000,000	-	-	1,000,000	-
				16,000,000	11,750,000	-	(2,500,000)	25,250,000	16,250,000
Weighted average exercise price (\$)				0.33	0.22			0.30	0.29

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of year Number	Vested and exercisable at the end of period Number
<b>2010 year</b>									
Unlisted options	26/02/10	\$0.30	26/02/12	-	11,000,000	-	-	11,000,000	11,000,000
Unlisted options	26/02/10	\$0.40	26/02/12	-	2,500,000	-	-	2,500,000	-
Unlisted options	26/02/10	\$0.50	26/02/14	-	2,500,000	-	-	2,500,000	-
				-	16,000,000	-	-	16,000,000	11,000,000
Weighted average exercise price (\$)					0.33			0.33	0.30

The above tables are for share based payment options issued for services rendered.

No share based payment options expired during the periods covered by the above table.

No share based payment options were exercised during the current or prior period.

The weighted average remaining contractual life of share options outstanding at the end of the financial years was 2.45 years (2010: 1.97 years), and the exercise prices range from 15 cents to 50 cents.

The assessed fair values of the options were determined using a Black-Scholes option pricing model, taking into account the exercise price, term of option, the share price at grant date and expected price volatility of the underlying share, expected dividend yield and the risk-free interest rate for the term of the option. The inputs to the model used were:

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

2011 Expiry date	OPTION SERIES				
	31/12/14	31/12/15	31/12/15	31/12/15	31/12/15
Dividend yield (%)	-	-	-	-	-
Expected volatility (%)	30	40	40	40	40
Risk-free interest rate (%)	4.8	5.17	5.17	5.17	5.17
Expected life of options (years)	4.42	4.78	4.78	4.82	4.82
Underlying share price (\$)	0.16	0.10	0.10	0.10	0.10
Option exercise price (\$)	0.30	0.15	0.25	0.15	0.20
Value of Option (\$)	0.018395	0.028611	0.014719	0.028779	0.020370

**16. RESERVES**

	Consolidated Group	
	2011	2010
	\$	\$
Option premium reserve	397,885	211,701
Foreign currency translation reserve	(234,471)	(33,000)
Balance at end of year	163,414	178,701

***Option premium reserve***

The option premium reserve is used to recognise the fair value of options issued.

	Consolidated Group	
	2011	2010
	\$	\$
Balance at beginning of year	211,701	700
Share-based payment expense	154,696	211,001
Share-based payment - capital raising cost	31,488	-
Balance at end of year	397,885	211,701

***Foreign currency translation reserve***

Exchange differences arising on translation of foreign controlled entities are taken to the foreign currency translation reserve, as described in note 1 (d). The reserve is recognised in profit and loss when the net investment is disposed of.

	Consolidated Group	
	2011	2010
	\$	\$
Balance at beginning of year	(33,000)	-
Foreign currency translation differences arising during the year	(201,471)	(33,000)
Balance at end of year	(234,471)	(33,000)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

	Consolidated Group	
	2011	2010
	\$	\$
<b>17. ACCUMULATED LOSSES</b>		
Balance at beginning of year	(5,778,268)	(64,620,189)
Capital reduction	-	64,618,625
Net loss attributable for the year	(2,929,364)	(5,776,704)
Balance at end of year	<u>(8,707,632)</u>	<u>(5,778,268)</u>

**18. 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 Group	
	2011	2010
	\$	\$
Cash on hand	<u>1,972,737</u>	<u>3,303,043</u>

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 Group	
	2011	2010
	\$	\$
Operating profit/(loss) after income tax	(2,929,364)	(5,776,704)
<b>Non-cash items</b>		
Depreciation of non-current assets	85,700	4,004
Amortisation of intangible assets	708,573	235,650
Impairment	24,694	3,465,442
Share-based payment	154,696	746,195
Unrealised foreign exchange loss	(137)	9,340
Grant Income	(67,015)	-
Income Tax Benefit	(274,380)	-

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

	Consolidated Group	
	2011	2010
	\$	\$
<i>Changes in assets and liabilities net of effect of purchase of subsidiaries</i>		
(Increase)/Decrease in receivables	40,275	(53,470)
(Increase)/Decrease in other current assets	4,646	(28,937)
Increase / (Decrease) in payables	(83,898)	130,359
Net cash (used in) operating activities	(2,336,210)	(1,268,121)

**(c) Non-cash Financing and Investing Activities**

- 1) As announced on 24 March 2011, Alexium signed a term sheet for an US\$8 million, 3 year equity line funding facility with Centurion Private Equity, LLCC, an institutional investor managed by Roswell Capital Partners, LCC based in Georgia, USA. At 30 June 2011, no amounts had been drawn down. Refer note 22(c) for key terms of the facility.
- 2) During the 2010 financial year Alexium Inc entered into a capital equipment lease from South Carolina Research Authority (SCRA) in the form of a grant. The value of the lease is US\$200,000 to lease equipment including forklift, lab equipment and computers of which assets to the full value have been received by Alexium Inc at 30 June 2011. This amount is being recognised as income over three years. The repayments are nil per month for 3 years with a buyout option at the end of the period or return the equipment.

**19. 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.

**20. INVESTMENTS IN CONTROLLED ENTITIES**

Name of Entity	Country of Incorporation	Percentage Owned (ordinary shares)	
		2011 %	2010 %
Parent Entity			
Alexium International Group Limited	Australia		
Subsidiaries of Alexium International Group Limited			
ETW Premium Pty Ltd	Australia	-	100
Alexium Limited	Cyprus	100	100
Alexium Marketing Services Limited	United Kingdom	-	100
Alexium Inc	United States of America	100	100

ETW Premium Pty Ltd was deregistered with effect from 6 October 2010 and is no longer consolidated into the accounts.

Alexium Marketing Services Limited was deregistered with effect from 14 September 2010 and is no longer consolidated into the accounts.

**21. KEY MANAGEMENT PERSONNEL DISCLOSURES**

**(a) Directors and other key management personnel**

The directors of Alexium International Group Limited during the financial year were:

- Mr Gavin Rezos
- Mr Craig Smith-Gander (appointed 11 November 2009)
- Mr Stefan Susta (appointed 1 March 2010)
- Mr Stephen Ribich (resigned 7 March 2011)

Mr Nicholas Clark was appointed Company Secretary 30 November 2010 following the resignation of Mrs Nadine Donovan.

Other key management personnel during the financial year were:

- Mr Halis Alkis – Interim Chief Executive Officer (appointed 7 March 2011)
- Mr John Almond – Business Development Manager Europe
- Dr Bob Brookins – Chief Technology Office
- Mr Nicholas Clark – Chief Financial Officer and Company Secretary (appointed 30 November 2010)

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**(b) Compensation of key management personnel**

Detailed remuneration disclosures are provided in the Remuneration report on pages 8 to 16.

	Consolidated Group	
	2011	2010
	\$	\$
Short-term benefits	840,298	335,175
Post employment benefits	7,650	4,540
Termination benefits	42,061	-
Share-based payments	86,251	120,271
	<u>976,260</u>	<u>459,986</u>

**Value of options issued to directors and executives**

The directors and executives of the Company were issued with the following share-based remuneration during the year:

- 6.5 million ESOP Options (2010: nil) with a value of \$82,631 (2010: nil);

**(c) Equity instrument disclosures relating to key management personnel**

*(i) Option holdings*

The number of options over ordinary shares in the Company held during the financial year by each director and executive of Alexium International Group Limited, including their personally related parties, are set out below.

**2011**

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
<b><u>Directors</u></b>						
Mr G Rezos	4,900,000	-	-	2,500,000	7,400,000	7,400,000
Mr S Ribich #	5,000,000	-	-	(5,000,000)	-	-
Mr C Smith-Gander	1,000,000	-	-	-	1,000,000	1,000,000
Mr S Susta	1,500,000	-	-	-	1,500,000	1,500,000
<b>Total Directors</b>	12,400,000	-	-	2,500,000	14,900,000	12,400,000
<b><u>Executives</u></b>						
Mr H Alkis *	-	1,500,000	-	-	1,500,000	1,500,000
Mr J Almond	5,000,000	-	-	-	5,000,000	2,500,000
Dr B Brookins	-	3,000,000	-	-	3,000,000	-
Mr N Clark *	-	2,000,000	-	-	2,000,000	1,000,000
<b>Total Executives</b>	5,000,000	6,500,000	-	-	11,500,000	5,000,000
<b>Total Directors and Executives</b>	17,400,000	6,500,000	-	2,500,000	26,400,000	17,400,000

\* Balance at date of appointment

# Balance at date of resignation

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## ALEXIUM INTERNATIONAL GROUP LIMITED

### 2010

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
<b><u>Directors</u></b>						
Mr G Rezos *	2,600,000	1,500,000	-	800,000	4,900,000	4,900,000
Mr S Ribich **	-	5,000,000	-	-	5,000,000	2,500,000
Mr C Smith-Gander *	-	1,000,000	-	-	1,000,000	1,000,000
Mr S Susta **	-	1,500,000	-	-	1,500,000	1,500,000
Mr J Mann # +	1,175,000	-	-	-	1,175,000	1,175,000
Mr A Finlay #	-	-	-	-	-	-
Mrs N Donovan #	-	-	-	-	-	-
<b>Total Directors</b>	<b>3,775,000</b>	<b>9,000,000</b>	<b>-</b>	<b>800,000</b>	<b>13,575,000</b>	<b>11,075,000</b>
<b><u>Executives</u></b>						
Mr J Almond**	-	5,000,000	-	-	5,000,000	2,500,000
Dr B Brookins	-	-	-	-	-	-
<b>Total Executives</b>	<b>-</b>	<b>5,000,000</b>	<b>-</b>	<b>-</b>	<b>5,000,000</b>	<b>2,500,000</b>
<b>Total Directors and Executives</b>	<b>3,775,000</b>	<b>14,000,000</b>	<b>-</b>	<b>800,000</b>	<b>18,575,000</b>	<b>13,575,000</b>

\* Balance at date of appointment

\*\* Balance at date of Alexium Limited acquisition

# Balance at date of resignation

+ Post consolidation (1:10)

### (ii) Share holdings

The number of shares in the Company held during the financial year by each director and executive of Alexium International Group Limited, including their personally related parties, is set out below. There were no shares granted during the reporting year as compensation.

### 2011

Name	Balance at start of year ORDINARY SHARES	Balance at start of year PERFORMANCE SHARES	Received during year on exercise of options	Other changes during year ORDINARY SHARES	Other changes during year PERFORMANCE SHARES	Balance at end of year ORDINARY SHARES	Balance at end of year PERFORMANCE SHARES
	Number	Number	Number	Number	Number	Number	Number
<b><u>Directors</u></b>							
Mr G Rezos	11,461,147	2,500,000	-	1,324,810	-	12,785,957	2,500,000
Mr S Ribich #	18,344,143	27,915,000	-	-	-	18,344,143	27,915,000
Mr C Smith-Gander	114,286	-	-	-	-	114,286	-
Mr S Susta	-	-	-	-	-	-	-
<b>Total Directors</b>	<b>29,919,576</b>	<b>30,415,000</b>	<b>-</b>	<b>1,324,810</b>	<b>2,500,000</b>	<b>31,244,386</b>	<b>30,415,000</b>
<b><u>Executives</u></b>							
Mr H Alkis	-	-	-	-	-	-	-
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr N Clarke *	-	-	-	-	-	-	-
<b>Total Executives</b>	<b>14,513,000</b>	<b>22,085,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,513,000</b>	<b>22,085,000</b>
<b>Total Directors and Executives</b>	<b>44,432,576</b>	<b>52,500,000</b>	<b>-</b>	<b>1,324,810</b>	<b>2,500,000</b>	<b>45,757,386</b>	<b>52,500,000</b>

\* Balance at date of appointment

+ Post consolidation (1:10)

# Balance at date of resignation

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

2010

Name	Balance at start of year ORDINARY SHARES	Balance at start of year PERFORMANCE SHARES	Received during year on exercise of options	Other changes during year ORDINARY SHARES	Other changes during year PERFORMANCE SHARES	Balance at end of year ORDINARY SHARES	Balance at end of year PERFORMANCE SHARES
	Number	Number	Number	Number	Number	Number	Number
<b><u>Directors</u></b>							
Mr G Rezos *	5,496,695	-	-	5,964,452	2,500,000	11,461,147	2,500,000
Mr S Ribich *	18,344,143	27,915,000	-	-	-	18,344,143	27,915,000
Mr C Smith-Gander *	-	-	-	114,286	-	114,286	-
Mr S Susta *	-	-	-	-	-	-	-
Mr J Mann * # +	1,600,000	-	-	-	-	1,600,000	-
Mr A Finlay * # +	220,000	-	-	-	-	220,000	-
Mr N Donovan * # +	200,000	-	-	-	-	200,000	-
<b>Total Directors</b>	25,860,838	27,915,000	-	6,078,738	2,500,000	31,939,576	30,415,000
<b><u>Executives</u></b>							
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
<b>Total Executives</b>	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
<b>Total Directors and Executives</b>	40,373,838	50,000,000	-	6,078,738	2,500,000	46,452,576	52,500,000

\* Balance at date of appointment

# Balance at date of resignation

+ Post consolidation (1:10)

**(d) Other transactions with key management personnel**

- 1) During the period the following was paid or payable to Viaticus Capital Pty Ltd, a related party of G Rezos:
  - (a) \$89,086 (2010: Nil) for reimbursement of salary and wages in relation to administration and bookkeeping personnel. In 2010 \$38,500 was paid to Albion Capital Partners, a related party of G Rezos, for the reimbursement of providing management, administration and accounting personnel.
  - (b) \$100,626 (2010: \$123,401) to reimburse sums paid by Viaticus on behalf of Alexium for travel and relocation expenses, administration services and equipment purchase. Of this, \$6,269 in expense reimbursements remained unpaid to Viaticus as at 30 June 2011.
  - (b) \$45,000 (2010: \$13,548) for investor relations services.
- 2) Options issued to Viaticus Capital Pty Ltd, a related party of G Rezos, (or its nominee) to compensate Viaticus for its part in assisting the Company to achieve its successful listing of the Company on the Frankfurt Stock Exchange. The options have a deemed value of \$45,988.

## 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.

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:

	Consolidated Group	
	2011	2010
	\$	\$
Cash at bank and in hand	1,972,737	2,296,226
Short-term deposit	-	1,006,817
Net exposure	<u>1,972,737</u>	<u>3,303,043</u>

The weighted average effective interest rate of financial instruments held at balance date was:

Cash & cash equivalents      4.28%                      (2010: 3.41%)

#### *Sensitivity risk*

At 30 June 2011, 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 \$19,727 higher (2010: changes of 1% \$33,030 higher/\$33,030 lower).

The 1% (2010: 1%) sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical RBA movements over the **last year**.

#### *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 Company 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.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

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.

2011 Consolidated Group	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	1,823,668	-	346,749	-	2,170,417
US dollar	-	-	(990,310)	-	(990,310)
UK pound sterling	(18,346)	-	-	-	(18,346)
Statement of financial position exposure	1,805,322	-	(643,561)	-	1,161,761

2010 Consolidated Group	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	980,017	-	403,480	(4,537)	1,378,960
US dollar	-	-	(163,817)	-	(163,817)
UK pound sterling	-	-	-	-	-
Statement of financial position exposure	980,017	-	239,663	(4,537)	1,215,143

*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.

*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. All financial assets and financial liabilities have a maturity date of less than one year.

**(b) Net fair values of financial assets and liabilities**

The net fair values of the financial assets and liabilities at balance date of Alexium International Group Limited approximate the carrying amounts in the financial statements, except where specifically stated.

**(c) Key terms of the equity line of credit**

On the 22<sup>nd</sup> June 2011, the Company entered into an USD \$8 million equity funding facility agreement with Centurion Private Equity, LLC.

The key terms of the facility are:

- The Company at its sole discretion will be entitled to issue a draw-down notice to Centurion to subscribe for ordinary shares in the Company. The maximum of any draw-down shall be two million dollars (\$2,000,000), subject to the condition that the number of subscription shares under that draw down, shall not exceed the lesser of:
  - the trading market limit,
  - the 9.9% Centurion share ownership limitation, from time to time, and the tranche share volume limit,
  - and the tranche share volume limit;and provided that the maximum tranche draw-down shall not be greater than the remaining portion of the commitment amount.
- The purchase price of a draw-down and with respect to subscription shares purchased is a price per share equal to the lesser of:
  - 95% of the tranche market price or
  - The tranche market price, minus \$0.005, provided that the minimum purchase price advised by the Company, can in no case be lower than the minimum price (i.e. no lower than 50% of the VWAP for the five (5) trading days immediately preceding the date of the applicable draw-down notice and no greater than 80% of the VWAP for the five (5) trading days immediately preceding the date of the draw-down notice).
- Term is thirty-six (36) months. The Company may, without the payment of any fee or penalty, save for the settlement of any outstanding draw-down, terminate the facility at any time upon five (5) trading days notice to Centurion.
- Fees comprise:
  - A commitment fee of 2% of the total facility value (\$160,000) paid by issuing shares to Centurion within 3 business days of signing the agreement;
  - A due diligence fee of \$20,000 payable on signing the agreement, satisfied by the issuance of shares;
  - Placement agent fees of 0.5% of the value of the adjusted tranche investment amount paid by Centurion. The placement agent fee shall be paid in cash by the Company on receipt of funds from a draw down.
- The Company shall not submit a draw-down notice, and no draw-down shall be permitted, if the VWAP for the five (5) trading days immediately preceding the proposed date of delivery of the draw-down notice is less than \$0.05.
- To date there has been no draw-down on the facility.

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

**23. PARENT ENTITY INFORMATION**

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2011. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity	
	2011	2010
	\$	\$
Current Assets	1,799,227	2,485,893
Non-current assets	14,250,900	13,448,696
Total Assets	16,050,127	15,934,589
Current liabilities	75,665	109,819
Non-current liabilities	-	-
Total Liabilities	75,665	109,819
Contributed equity	18,516,070	17,197,558
Accumulated losses	(2,939,493)	(1,584,489)
Reserves	397,885	211,701
Total equity	15,974,462	15,824,770
Loss for the year	(1,355,004)	(1,584,489)
Other comprehensive income net of tax for the year	-	-
Total comprehensive income net of tax for the year	(1,355,004)	(1,584,489)

The Company's commitments and contingencies are items 2 to 5 of note 24.

**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 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, excluding the United States, in exchange for a 5% gross sales royalty to be paid to Dr Owens.
- 2) The Group has current agreements in place with Mr Smith-Gander, non-executive director, to pay annual director fees of \$25,000 pa and a commitment to pay executive director fees to Mr Rezos of \$60,000 and Mr Susta of US\$155,000 pa.

- 3) The Group entered into an agreement with Thomson Reuters to provide corporate communications services for A\$983 per month. The agreement was for a 12 month term commencing on 1 December 2010. The agreement will not be renewed when it expires in December 2011.
- 4) The Group entered an agreement with Dr Reuter in Germany to provide investor relations services for Euro 3,000 per month. The agreement was for an initial 6 month term effective from 1 May 2010 with a renewal option of 12 months thereafter. The payments are currently on a month by month basis.
- 5) On 1 July 2010 the Group entered into an agreement with Bank M as the Designated Sponsor in relation to the Frankfurt Stock Exchange for EUR20,000 per annum. The contract can be terminated by either party giving 2 months notice.

Based on discussions with the Directors and legal advisors, to our knowledge, the Group has no other material commitments or contingent liabilities.

**(a) Commitments**

Lease commitments

*(i) Operating leases*

Alexium Inc leases offices in South Carolina under an operating lease which expires in 3 years. The lease has various terms, escalation clauses and renewal rights.

	Consolidated Group	
	2011	2010
	\$	\$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	46,365	47,631
Later than one year but not later than 5 years	35,904	86,634
Later than 5 years	-	-

*(ii) Capital equipment lease*

During the 2010 financial year Alexium Inc entered into a capital equipment lease from South Carolina Research Authority (SCRA) in the form of a grant. The value of the lease is US\$200,000 to lease equipment including forklift, lab equipment and computers of which assets to the full value have been received by Alexium Inc at 30 June 2011. This amount is being recognised as income over three years. The repayments are nil per month for 3 years with a buyout option at the end of the period or return the equipment.

The Group had no other commitments as at 30 June 2011.

**(b) Contingencies**

The Group has no contingent liabilities or commitments as at 30 June 2011.

**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**

No matters or circumstances have arisen since the end of the financial year which significantly affects the operations of the consolidated group, the results of those operations, or the state of affairs of the consolidated group in future financial years other than stated below.

Five million unlisted options exercisable at 15 cents were issued to directors as approved by shareholders on 16 September 2011. The options are subject to vesting conditions and expire 31 December 2015.

## DIRECTORS' DECLARATION

---

The directors of the Company declare that:

1. the financial statements, comprising the statement of comprehensive income, the statement of financial position, statement of cash flows, statement of changes in equity and accompanying notes, as set out on pages 23 to 62 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 2011 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 Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards;
  - (c) the financial statements and notes for the financial year give a true and fair view; and
  - (d) the remuneration disclosures contained in the Remuneration Report comply with s300A of the Corporations Act 2001.
4. the remuneration disclosed included on pages 8 to 16 of the directors' report (as part of the audited Remuneration Report) for the year ended 30 June 2011, comply with section 300A of the Corporations Act 2001.
5. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



Gavin Rezos  
Executive Chairman  
Perth, 28<sup>th</sup> September 2011

**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, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 company 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 company are responsible for the preparation and fair presentation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report, comprising the financial statements and notes, complies 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. These Auditing Standards require that we 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity'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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

#### **Report on the Remuneration Report**

We have audited the remuneration report included in pages 8 to 16 of the directors' report for the year ended 30 June 2011. The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards

#### *Auditor's opinion*

In our opinion the remuneration report of Alexium International Group Limited for the year ended 30 June 2011 complies with section 300A of the *Corporations Act 2001*.

**STANTONS INTERNATIONAL AUDIT AND CONSULTING PTY LTD**  
**(Trading as Stantons International)**  
**(An Authorised Audit Company)**

*Stantons International Audit and Consulting Pty Ltd*



**J P Van Dieren**  
Director

West Perth, Western Australia  
28 September 2011

## ADDITIONAL INFORMATION

### ALEXIUM INTERNATIONAL GROUP LIMITED

The distribution of members and their holdings at 21 September 2011 was as follows:-

NAME OF 20 LARGEST ORDINARY SHAREHOLDERS	NUMBER OF ORDINARY FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
Korcula (BVI) SA	18,344,143 *	14.86
HSBC Custody Nominees (Australia) Limited – A/C 3	17,142,857 *	13.89
Piper Buchanan Limited	14,513,000 *	11.76
HSBC Custody Nominees (Australia) Limited - A/C 2	12,006,500 *	9.73
JP Morgan Nominees Australia Limited	8,072,935 *	6.54
Aymon Pacific Pty Ltd	8,045,960 *	6.52
Rezos GJ & JE	4,320,185 *	3.50
Oaktone Nominees Pty Ltd	3,535,000	2.86
Peter Macskasy Barnes	2,600,000	2.11
Citicorp Nominees Pty Limited	2,086,714	1.69
Dilato Holdings Pty Ltd	1,250,000	1.01
Mr Nick Otty	1,165,000	0.94
Citicorp Nominees Pty Limited	1,082,000	0.88
Australian Global Capital Pty Ltd	870,408	0.71
National Nominees Limited	607,013	0.49
Rainwood Holdings Pty Ltd	606,600	0.49
Mr Nick Otty	600,000	0.49
MOD Resouces Limited	550,000	0.45
Mr Alan James George Parr	500,000	0.40
Kakaruk Pty Ltd	441,600	0.36
	<u>98,339,915</u>	<u>79.65</u>

#### MARKETABLE PARCEL

At 21 September 2011, 524 shareholders held less than a marketable parcel.

#### SUBSTANTIAL SHAREHOLDERS

Shares held by substantial shareholders listed in the company's register at 21 September 2011 are indicated by \* above.

#### 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.

#### 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.

#### DISTRIBUTION OF SHAREHOLDERS

	Shareholders
1 - 1,000 shares	410
1,001 - 5,000 shares	93
5,001 - 10,000 shares	83
10,001 - 100,000 shares	342
100,001 and over	80
Total Ordinary Shareholders	<u>1,008</u>