



ALEXIUM INTERNATIONAL GROUP LIMITED

ABN 91 064 820 408

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2012

CONTENTS

ALEXIUM INTERNATIONAL GROUP LIMITED

Company Directory	3
Chairman's Report	4
Directors' Report	6
Corporate Governance Statement	20
Auditor's Independence Declaration	24
Consolidated Statement of Comprehensive Income	25
Consolidated Statement of Financial Position	26
Consolidated Statement of Changes in Equity	27
Consolidated Statement of Cash Flows	28
Notes to the Financial Statements	29
Directors' Declaration	70
Independent Audit Report	71
Additional Information	73

COMPANY DIRECTORY

ALEXIUM INTERNATIONAL GROUP LIMITED

DIRECTORS:

Mr Gavin Rezos
Mr Craig Smith-Gander
Mr Stefan Susta

**COMPANY
SECRETARY:**

Mr Nicholas Clark

**REGISTERED AND
PRINCIPAL OFFICE:**

Norfolk House, Suite 7
85 Forrest St
Cottesloe WA 6011
Telephone: +61 8 6162 1358
Facsimile: +61 8 6314 1623

AUDITORS:

Stantons International
Level 2, 1 Walker Ave
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:

Steinepreis Paganin
Level 4, The Read Buildings
16 Milligan Street
Perth WA 6000

ABN:

91 064 820 408

**DOMICILE AND COUNTRY
OF INCORPORATION:**

Australia

LEGAL FORM OF ENTITY:

Listed Public Company

SECURITY EXCHANGE:

Australian Securities Exchange (Perth) Limited
ASX Code: AJX

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

OTCQX : Ticker Code AXXIY

CHAIRMAN'S REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

28 September 2012

Dear Shareholders

I am pleased to present your company's annual report for 2012 and highlight further progress on our award winning Reactive Surface Treatment (RST) technology.

The highlight of the year was our first exclusive Licence agreement with Duro Textiles, where your company will receive upfront and milestone payments and royalties for sales of nylon in North America by Duro, treated with our new environmentally friendly flame retardant chemistry. Duro is one of the largest textile finishers in North America and is part of the \$7 billion Patriarch Group. Our technology was described by Duro in public releases as "game changing". Duro are targeting the current 4 million linear yard nylon market in North America for commercial and defense industry applications.

Our flame retardant technology is gaining interest for performance reasons and the ability to treat heat sensitive materials but also because it is environmentally friendly and does not use bromides or halogens, which are currently being investigated in the US by legislators for environmental concerns. There are over 40,000 tonnes of such chemicals produced in the US annually.

Your company continued to grow its production and testing capability in technical textiles at our Greer, South Carolina plant, with additional laboratory capability, enhanced textile line, microwave processing speed and senior staff appointments. We have also been supporting our US Department of Defense (DoD) friends in applications of the RST technology under a new Cooperative Research and Development Agreement between Alexium and the US Air Force.

Our US\$129m invited tender with the DoD, in conjunction with established US Defense contractor Tennier Industries and Stedfast Inc of Canada for chem bio protection suits for use by the DoD, did not qualify under the tender rules due to a third party sourced carbon layer not conforming with DoD requirements. This was not part of the treated outer shell supplied by Alexium. Whilst this would have been a very valuable contract for Alexium, the invited tender shows both the value in our technology and underlines the RST capability.

Your company has also listed on the OTC QX exchange in the US in January this year to complement our listings in Australia and Europe. Our register is now over 27% institutionally held. We also appointed Baker Young, stockbrokers based in Adelaide as our corporate advisors. Alexium gave a number of invited presentations at world leading industry conferences during the year and our new Flame Retardant nylon product was acclaimed by conference organizers as a highlight at the International Textextil conference in Atlanta, Georgia in April.

CHAIRMAN'S REPORT

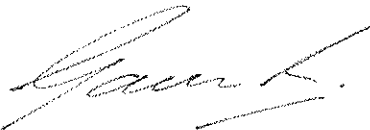
ALEXIUM INTERNATIONAL GROUP LIMITED

Highlights include:

- September 2011 Alexium receives Purchase Order from US DoD.
- January 2012 Sign New Cooperative Research and Development Agreement with US Air Force
- January 2012 Commences Trading on OTCQX Market Place -Ticker Symbol: OTC QX: AXXIY
- January 2012 Achieves Key Technical Milestone for Revolutionary FR Nylon Products
- January 2012 Forges Innovative and Environmentally Friendly Path Ahead with Bruck Textiles
- February 2012 Alexium presents at the 2012 Annual Merriman Investors Summit in New York
- April 2012 US Army places an Additional Purchase Order for Cleanshell™ Testing
- April 2012 Alexium receives Letter of Intent to Licence FR Nylon Treatment
- June 2012 Expansion of Technical Team in Commercial Roll-Out Phase
- July 2012 Commercial Transition to Safer Flame Retardants – A Golden Opportunity
- August 2012 Alexium completes License deal with Duro for FR Nylon Treatment

Your Board thanks you for your support. We are very pleased to have our first licence with Duro Textiles which we believe will deliver strong earnings for your company. In the coming year we expect to deliver more valuable licences to deliver increased shareholder value.

Yours Faithfully



Gavin Rezos

Chairman

Alexium International Group Limited

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 2012:

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, Principal of Viaticus Capital Pty Ltd and a non-executive Director of Rowing Australia, the peak Olympic sports body for rowing in Australia.

Mr Stefan Susta MBA, BSc BA, Executive Director

Mr Susta has spent over 15 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.

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:

Name	Number of ordinary shares	Number of Performance shares	Number of options over ordinary shares
Mr Gavin Rezos	14,090,776	2,500,000	7,150,000
Mr Craig Smith-Gander	114,286	-	1,000,000
Mr Stefan Susta	-	-	2,000,000

COMPANY SECRETARY

Mr Nicholas Clark *BEC, LLB, MBA, CPA, F FIN*, held the position of company secretary during the financial year to the date of this report:

Mr Clark was appointed company secretary on 30 November 2010.

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 2012 was \$2,722,983 (2011: \$2,929,364).

As at 30 June 2012 the cash position was \$906,658 (2011: \$1,972,737) and the Company had 139,888,221 ordinary shares on issue (2011: 123,458,402).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Alexium closed a commercial deal with Duro Textiles to license its environmentally friendly, bromine and halogen free, Flame Retardant (FR) Nylon Treatment.

Contributed equity increased by \$1,185,686 (from \$18,516,070 to \$19,701,756) as the result of the share placement raising \$1,200,000 less cost of \$79,814 and cost of \$54,000 attributed to the share placement raising in March 2011 as well as \$100,000 of shares allocated to Gavin Rezos in lieu of salary. There was also \$4,500 of shares issued to Moody capital and \$15,000 of shares issued to Alpha Securities as part payment for services.

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 30,540,000 unissued ordinary shares under option (2011: 42,790,000). Details of these options are as follows:

Date Options Granted	Expiry Date	Exercise price of shares	Number under option
19 June 2008	31 December 2012	\$0.10	7,000,000
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
22 February 2012	22 August 2013	\$0.125	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. Nil options lapsed during the year (2011: 2.5 million) and 17.25 million options expired during the year (2011: nil).

In addition to the above, there are 52,500,000 performance shares on issue (2011: 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

As reported on August 8 2012 Alexium closed a commercial deal with Duro Textiles, one of the United States' largest finishers and distributors of textile products, to license its environmentally friendly, bromine and halogen free, Flame Retardant (FR) Nylon Treatment.

Alexium has been awarded a \$200,000 contract with the US Air Force Research Laboratory to demonstrate Cleanshell® CB treatments for chemical and biological protection applications. This contract follows two other purchase orders by the US Army over the last year and will further validate RST technology for defence applications.

The Australian patent office has granted Alexium a patent for the "Method for Attachment of Silicon-containing Compounds to a Surface and for Synthesis of Hypervalent Silicon-compounds" (Australia Patent No. 2006290509).

On 10 September 2012, the Group announced that it has placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. The Group will use the funds from this placement to progress its development work in the speciality chemical solutions area, focusing on flame retardant treatments and Flame retardant additives.

The notes have the following key terms:

- A maturity date of 30 August 2014.
- Coupon rate of 13% per annum with interest paid quarterly in arrears.
- Convertible notes are unlisted and unsecured and are convertible to fully paid ordinary shares

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

- Conversion price is lesser of:
 - \$0.10 per share OR;
 - 87.5% of the previous 30 day volume weighted average price for the Company's ordinary shares OR;
 - In the event of a future issue of ordinary shares during the term, the price of issue of such fully paid ordinary shares.
- The note holder may elect to convert the convertible notes at any time after 90 days from the Allotment Date until the Maturity Date.

The Group has received firm commitments for \$1.1 million and to the date of signing this report has received \$892,500 out of the total capital raising of \$1.1 million.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

The Group's efforts have focused on specialty chemical solutions for a broad range of military and commercial applications. In addition to developing stand-alone specialty chemical solutions, Alexium has been able to enhance its patented Reactive Surface Treatment (RST) method, which combines unique chemistry with microwave curing for a number of applications.

The Group has focused on specific applications where its specialty chemicals solutions can clearly enable new value-added products. This work includes next generation flame retardant chemistry, specialized repellency treatments, and smart surface treatments for high performance materials. The commercial roll-out of existing FR treatments and developing other environmentally-friendly FR solutions represent the largest commercial opportunity for the Group. Therefore, near-term, the Group is focused on extending the existing technology, such as eco-friendly flame retardant finishes on synthetic fabrics, to quickly address urgent market needs and generate revenues.

This near-term focus is balanced and guided by long-term innovation and business strategies that will address future trends and create future commercial opportunities. The Group's strategy is to expand the development of environmentally-friendly FR alternatives, as topical finish or polymer additive, and to continue to offer the capability to apply smart surface treatments using organic-inorganic hybrid nano-composite coatings, and low temperature curing solutions.

To demonstrate the desired performance on both laboratory as well as production level product, the Group has maintained an operation in Greer, South Carolina. With this infrastructure and by teaming with development partners, the Group has been able to demonstrate completely integrated manufacturing solutions. Via commercial development and license agreements, the Group continued to validate and transition the technology to product manufacturers. Alexium is beginning to grow revenues by licensing the FR nylon treatment globally to companies such as Duro Textiles.

In addition to the commercial work, the Group has responded to various requests to supply RST treated textiles to the US Department of Defense in support of tenders and technology demonstration projects. This work will continue, particularly in the areas of FR fabrics and chemical and CB fabric treatments, understanding that each award is made on a competitive basis and subject to transition periods.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

As has been the case in the past, it is expected that the additional development work and extensions and improvements to the existing technology will generate new patent applications, thereby extending patent protection. 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, and are primarily targeted at military programs.

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 2011 to 30 June 2012 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 who are key management personnel 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

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

- Mr Halis Alkis – Interim Chief Executive Officer to March 8 2012.
- Mr John Almond – Business Development Manager Europe
- Dr Bob Brookins – Chief Technology Officer
- Mr Nicholas Clark – Chief Financial Officer and Company Secretary

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.
- That rewards to executives be linked to the creation of value to shareholders.
- That executives be rewarded for both financial and non-financial performance.
- That remuneration arrangements ensure equity between executives and facilitate the deployment of human resources.

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

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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. In recognition of Mr Rezos moving from non-executive to executive chairman, the Company, with shareholder approval, issued 1,204,819 shares representing \$100,000 to Mr Rezos.
- 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.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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 (options issued in March 2011);
- Termination: This was a fixed term contract. The interim CEO contract was terminated in March 2012 and a new contract was formed for a Consultancy Agreement.

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; (options issued in March 2011)
- 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.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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

2012

	Short-term benefits			Post-employment Super-annuation	Termination Benefits	Share-based payments	Total	Proportion related to performance ⁽²⁾	Remuneration consisting of options
	Salary and fees	Bonus	Other benefits						
	\$	\$	\$		\$	\$	\$	%	%
<u>Directors</u>									
Mr G Rezos ⁽¹⁾	60,000	-	-	5,400	-	110,382	175,782	-	6
Mr C Smith-Gander	25,000	-	-	2,250	-	4,398	31,648	-	14
Mr S Susta	149,647	-	12,806	-	-	8,795	171,248	-	5
Total Directors	234,647	-	12,806	7,650	-	123,575	378,678		
<u>Executives</u>									
Mr J Almond	121,052	-	-	-	-	(299)	120,753		-
Dr B Brookins	114,246	-	12,615	-	-	39,956	166,817	-	24
Mr N Clark	78,467	-	-	-	-	14,325	92,792	-	15
Mr H Alkis ⁽²⁾	77,237	-	-	-	-	-	77,237		
Total Executives	391,002	-	12,615	-	-	53,982	457,599		
Total Directors and Executives	625,649	-	25,421	7,650	-	177,557	836,277		

- (1) Viaticus Capital Pty Ltd, a related party of G Rezos, also received the following:
- \$121,608 (2011:\$89,086) during the financial year for reimbursement of salary and wages in relation to administration and bookkeeping personnel provided to Alexium by Viaticus of which Mr Rezos is a director.
- (2) Remuneration received up to date of resignation as interim CEO (8 March 2012).

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

2011

	Short-term benefits			Post-employment Super-annuation	Termination Benefits	Share-based payments	Total	Proportion related to performance ⁽²⁾	Remuneration consisting of options
	Salary and fees	Bonus	Other benefits						
	\$	\$	\$		\$	\$	\$	%	%
<u>Directors</u>									
Mr G Rezos ⁽¹⁾	67,806	-	-	5,400	-	-	73,206	-	-
Mr S Ribich ⁽³⁾	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	-	-
Total Directors	427,047	-	28,041	7,650	42,061	(1,810)	502,989		
<u>Executives</u>									
Mr J Almond ⁽²⁾	159,304	-	-	-	-	5,430	164,734	3	3
Dr B Brookins	96,526	-	11,839	-	-	13,204	121,569	-	11
Mr H Alkis	40,151	-	-	-	-	36,862	77,013		48
Mr N Clark	77,390	-	-	-	-	32,565	109,955	-	30
Total Executives	373,371	-	11,839	-	-	88,061	473,271		
Total Directors and Executives	800,418	-	39,880	7,650	42,061	86,251	976,260		

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

- (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.

Value of shares and options issued to directors and executives

The directors of the Company were issued with the following share-based remuneration during the year:- 5 million ESOP Options (2011: 6.5 million ESOP Options) with a value of \$37,242 (2011: \$82,631) and 1,204,819 shares (2011: Nil) with a value of \$100,000 (2011: 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:

Name	Number of options granted during 2012	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2012
<u>Directors</u>							
Mr G Rezos	1,000,000	16/09/11		0.007448	0.15	31/12/15	1,000,000
	1,000,000	16/09/11	16/09/13	0.007448	0.15	31/12/15	-
Mr S Susta	1,000,000	16/09/11	16/09/12	0.007448	0.15	31/12/15	-
	1,000,000	16/09/11	16/09/13	0.007448	0.15	31/12/15	-
Mr C Smith-Gander	500,000	16/09/11	16/09/12	0.007448	0.15	31/12/15	-
	500,000	16/09/11	16/09/13	0.007448	0.15	31/12/15	-

The options were provided at no cost to the recipients.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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 three 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
<u>Directors</u>					
Mr G Rezos	1,000,000	16/09/11	100%	0	2012
	1,000,000	16/09/11	0	0	2014
Mr S Susta	1,000,000	16/09/11	0	0	2013
	1,000,000	16/09/11	0	0	2014
Mr C Smith-Gander	500,000	16/09/11	0	0	2013
	500,000	16/09/11	0	0	2014
<u>Executives</u>					
Mr J Almond	1,250,000	26/02/10	0	0	(1)
Mr B Brookins	1,000,000	21/03/11	100%	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	0	0	2013

- (1) The exercise of the 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.

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 persons is detailed below.

Name	Granted in year \$ (A)	Value of options exercised in year \$ (B)	Lapsed in year \$(c)
<u>Directors</u>			
Mr G Rezos	14,897	-	-
Mr S Susta	14,897	-	-
Mr C Smith-Gander	7,448	-	-

- (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.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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.

2012

Name	Balance at start of year	Granted during year as remuneration	Exercised during year	Other changes during year (expired)	Balance at end of year	Options Vested and exercisable at end of year
	Number	Number	Number	Number	Number	Number
<u>Directors</u>						
Mr G Rezos	7,400,000	2,000,000	-	(2,250,000)	7,150,000	6,150,000
Mr C Smith-Gander	1,000,000	1,000,000	-	(1,000,000)	1,000,000	-
Mr S Susta	1,500,000	2,000,000	-	(1,500,000)	2,000,000	-
Total Directors	9,900,000	5,000,000	-	(4,750,000)	10,150,000	6,150,000
<u>Executives</u>						
Mr J Almond	5,000,000	-	-	(3,750,000)	1,250,000	-
Dr B Brookins	3,000,000	-	-	-	3,000,000	1,000,000
Mr N Clark *	2,000,000	-	-	-	2,000,000	1,000,000
Mr H Alkis	1,500,000	-	-	-	1,500,000	1,500,000
Total Executives	11,500,000	-	-	(3,750,000)	7,750,000	3,500,000
Total Directors and Executives	21,400,000	5,000,000	-	(8,500,000)	17,900,000	9,650,000

* Balance at date of appointment

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
<u>Directors</u>						
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
Total Directors	12,400,000	-	-	(2,500,000)	9,900,000	9,900,000
<u>Executives</u>						
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
Total Executives	5,000,000	6,500,000	-	-	11,500,000	5,000,000
Total Directors and Executives	17,400,000	6,500,000	-	(2,500,000)	21,400,000	14,900,000

* Balance at date of appointment

Balance at date of resignation

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

(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. 1,204,819 shares granted to Mr G Rezos during the reporting year as compensation.

2012

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
<u>Directors</u>							
Mr G Rezos	12,785,957	2,500,000	-	1,304,819	-	14,090,776	2,500,000
Mr C Smith-Gander	114,286	-	-	-	-	114,286	-
Mr S Susta	-	-	-	-	-	-	-
Total Directors	12,900,243	2,500,000	-	1,304,819	-	14,205,062	2,500,000
<u>Executives</u>							
Mr J Almond	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr N Clarke	-	-	-	-	-	-	-
Mr H Alkis	-	-	-	-	-	-	-
Total Executives	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Total Directors and Executives	27,413,243	24,585,000	-	1,304,819	-	28,718,062	24,585,000

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
<u>Directors</u>							
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	-	-	-	-	-	-	-
Total Directors	29,919,576	30,415,000	-	1,324,810	-	31,244,386	30,415,000
<u>Executives</u>							
Mr H Alkis	-	-	-	-	-	-	-
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr N Clarke *	-	-	-	-	-	-	-
Total Executives	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Total Directors and Executives	44,432,576	52,500,000	-	1,324,810	-	45,757,386	52,500,000

* Balance at date of appointment

Balance at date of resignation

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

(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(c).

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	8	8	-	8
Craig Smith-Gander	8	7	-	8
Stefan Susta	8	8	-	8

Dates of Board Meetings and Circulating Resolutions

Board Meetings	Circular Resolutions
5 July 2011 7 September 2011 4 October 2011 7 December 2011 7 February 2012 14 March 2012 3 April 2012 6 June 2012	

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.

DIRECTORS' REPORT

ALEXIUM INTERNATIONAL GROUP LIMITED

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 24 of the financial report.

Dated this 26th day of September 2012.

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

26 September 2012

Board of Directors
Suite 7, Norfolk House
85 Forrest Street
COTTESLOE, WA 6011

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 2012, 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 sincerely

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



John P Van Dieren - FCA
Director

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2012

ALEXIUM INTERNATIONAL GROUP LIMITED

		Consolidated Group	
		2012	2011
		\$	\$
	Note		
Revenue from continuing operations	3	197,147	72,034
Cost of goods sold		(128,470)	(212,075)
Employee benefits expense		(955,868)	(1,313,919)
Depreciation and amortisation		(812,785)	(794,273)
Share-based payments	15(c)	(237,059)	(154,696)
Impairment	11	(101,917)	(24,694)
Other expenses	4	(932,101)	(855,398)
Net trading profit/(loss)		(2,971,053)	(3,283,021)
Finance income	3	44,385	79,277
Loss before income tax		(2,926,668)	(3,203,744)
Income tax (expense)/benefit	6	203,685	274,380
Loss for the year		(2,722,983)	(2,929,364)
Other comprehensive income, net of income tax			
Exchange differences on translation of foreign operations		21,537	(201,471)
Total comprehensive loss for the year		(2,701,446)	(3,130,835)
Loss for the year attributable to members of the group		(2,722,983)	(2,929,364)
Total comprehensive loss for the year attributable to members of the group		(2,701,446)	(3,130,835)
Basic loss per share (cents)	7	(2.11)	(2.37)
Diluted loss per share (cents)	7	(2.11)	(2.37)

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 2012

ALEXIUM INTERNATIONAL GROUP LIMITED

		Consolidated Group	
		2012	2011
	Note	\$	\$
Current Assets			
Cash and cash equivalents	18(a)	906,658	1,972,737
Trade and other receivables	8	106,649	19,268
Other assets	9	55,252	37,083
Total Current Assets		<u>1,068,559</u>	<u>2,029,088</u>
Non-Current Assets			
Other financial assets		4,035	3,868
Property, plant and equipment	10	341,098	343,237
Intangible assets	11	10,332,142	11,100,972
Total Non-Current Assets		<u>10,677,275</u>	<u>11,448,077</u>
Total Assets		<u>11,745,834</u>	<u>13,477,165</u>
Current Liabilities			
Trade and other payables	12	101,007	177,831
Provisions		18,236	10,690
Other - deferred income	13	65,562	62,865
Total Current Liabilities		<u>184,805</u>	<u>251,386</u>
Non-Current Liabilities			
Deferred tax liability	6	2,987,377	3,191,062
Other - deferred income	13	-	62,865
Total Current Liabilities		<u>2,987,377</u>	<u>3,253,927</u>
Total Liabilities		<u>3,172,182</u>	<u>3,505,313</u>
Net Assets		<u>8,573,652</u>	<u>9,971,852</u>
Equity			
Contributed equity	14	19,701,756	18,516,070
Reserves	16	302,511	163,414
Accumulated losses	17	(11,430,615)	(8,707,632)
Total Equity		<u>8,573,652</u>	<u>9,971,852</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 2012

ALEXIUM INTERNATIONAL GROUP LIMITED

	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2011	18,516,070	163,414	(8,707,632)	9,971,852
Loss for the year	-	-	(2,722,983)	(2,722,983)
Foreign currency translation	-	21,537	-	21,537
Total comprehensive loss for the year	-	21,537	(2,722,983)	(2,701,446)
Transactions with owners in their capacity as owners:				
Shares issued	1,200,000	-	-	1,200,000
Share issue costs	(133,814)	-	-	(133,814)
Share-based payment	119,500	117,559	-	237,059
Balance at 30 June 2012	19,701,756	302,510	(11,430,615)	8,573,651

	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance at 1 July 2010	17,197,558	178,701	(5,778,268)	11,597,991
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
Balance at 30 June 2011	18,516,070	163,414	(8,707,632)	9,971,852

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 2012

ALEXIUM INTERNATIONAL GROUP LIMITED

	Notes	Consolidated Group	
		2012 \$	2011 \$
Cash flow from operating activities			
Receipts from customers		57,737	50,329
Other Income		53,100	
Payments to suppliers and employees		(2,165,791)	(2,515,011)
Interest received		44,385	79,277
Goods & services tax (paid)/received from ATO		46,894	49,195
Net cash flows used in operating activities	18(b)	(1,963,675)	(2,336,210)
Cash flows from investing activities			
Increase in intangibles		(78,470)	(51,317)
Purchase of property, plant and equipment		(72,376)	(158,995)
Website development			(22,760)
Net cash flows used in investing activities		(150,846)	(233,072)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		1,200,000	1,350,000
Payment of share issue costs		(133,814)	-
Net cash flows from/(used in) financing activities		1,066,186	1,350,000
Net increase/(decrease) in cash and cash equivalents		(1,048,335)	(1,219,282)
Cash and cash equivalents at beginning of year		1,972,737	3,303,043
Effect of exchange rate changes on cash and cash equivalents		(17,744)	(111,024)
Cash and cash equivalents at end of year	18(a)	906,658	1,972,737

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. Alexium commenced trading on the OTC markets prestigious tier, OTCQX International on January 13 2012. These financial statements include the consolidated financial statements and notes of Alexium International Group Limited and controlled entities ('Group') and are presented in Australian dollars.

The financial report was authorised for issue by the directors on 26 September 2012 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 23.

(b) Application of new and revised Accounting Standards

Standards and Interpretations affecting amounts reported in the current period (and/or prior periods).

The following new and revised Accounting Standards and Interpretations have, where applicable, been adopted in the current year but have had no significant effect on the amounts reported or disclosures.

Standards affecting presentation and disclosure

Amendments to AASB 7 'Financial Instruments' Disclosure'	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held.
Amendments to AASB 101 'Presentation of Financial Statements'	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
AASB 1054 'Australian Additional Disclosures' and AASB 2011-1 'Amendments to Australian Accounting Standards arising from Trans-Tasman Convergence Project'	AASB 1054 sets out the Australian-specific disclosures for entities that have adopted Australian Accounting Standards. AASB 2011-1 makes amendments to a range of Australian Accounting Standards and Interpretations for the purpose of closer alignment to IFRSs and harmonisation between Australian and New Zealand Standards.
AASB 124 'Related Party Disclosures' (revised December 2009)	AASB 124 (revised December 2009) has been revised on the following two aspects: (a) AASB 124 (revised December 2009) has changed the definition of a related party and (b) AASB 124 (revised December 2009) introduces a partial exemption from the disclosure requirements for government-related entities.
AASB 2009-14 'Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement'	Interpretation 114 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of AASB 119.
AASB 2009-12 'Amendments to Australian Accounting Standards'	The application of AASB 2009-12 makes amendments to AASB 8 'Operating Segments' as a result of the issuance of AASB 124 'Related Party Disclosures' (2009).
AASB 2010-5 'Amendments to Australian Accounting Standards'	The Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations.
AASB 2010-6 'Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets'	The application of AASB 2010-6 makes amendments to AASB 7 'Financial Instruments – Disclosures' to introduce additional disclosure requirements for transactions involving transfer of financial assets.

New Accounting Standards for Application in Future Periods

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group

At the date of the authorization of the financial statements, the standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', AASB 200911 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
AASB 10 'Consolidated Financial Statements'	1 January 2013	30 June 2014
AASB 11 'Joint Arrangements'	1 January 2013	30 June 2014
AASB 12 'Disclosure of Interests in other Entities'	1 January 2013	30 June 2014
AASB 127 'Separate Financial Statements' (2011)	1 January 2013	30 June 2014
AASB 128 'Investments in Associates and Joint Ventures' (2011)	1 January 2013	30 June 2014
AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'	1 January 2013	30 June 2014
AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 19 (2011)'	1 January 2013	30 June 2014
AASB 2010-8 'Amendments to Australian Accounting Standards – Deferred Tax: recovery of Underlying Assets'	1 January 2012	30 June 2013
AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements'	1 July 2013	30 June 2014
AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements standards'	1 January 2013	30 June 2014
AASB 2011-9 'Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income'	1 July 2012	30 June 2013
Interpretation 20 'Stripping Costs in the Production Phase of a Surface Mine' and AASB 2011-12 'Amendments to Australian Accounting Standards arising from Interpretation 20'.	1 January 2013	30 June 2014

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

The Group has decided not to early adopt any of the new and amended pronouncements. Of the above new and amended Standards and Interpretations the Group's assessment of those new and amended pronouncements that are relevant to the Group but applicable in future reporting periods is set out below:

AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

The key changes made to accounting requirements include:

simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

simplifying the requirements for embedded derivatives;

removing the tainting rules associated with held-to-maturity assets;

removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument

requiring financial assets to be reclassified where there is a change in an entity's business model as they are initially classified based on: (a) the objective of the entity's business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and

requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

AASB 10: Consolidated Financial Statements, AASB 11: Joint Arrangements, AASB 12: Disclosure of Interests in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces parts of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation - Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interests in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either "joint operations" (whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or "joint ventures" (where the parties that have joint control of the arrangement have rights to the net assets of the

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

arrangement). Joint ventures are required to adopt the equity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a "structured entity", replacing the 'special purpose entity' concept currently used in Interpretation 112, and requires specific disclosures in respect of any investments in unconsolidated structured entities. This Standard will only affect disclosures and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128 have also been issued. These Standards are not expected to significantly impact the Group.

AASB 13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3, 4, 5, 7, 9, 2009-11, 2010-7, 101, 102, 108, 110, 116, 117, 118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosures about fair value measurements.

AASB 13 requires:

inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy; and enhanced disclosures regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB 2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is not expected to significantly impact the Group.

AASB 119 (September 2011) also includes changes to the accounting for termination benefits that require an entity to recognise an obligation for such benefits at the earlier of:

- (i) for an offer that may be withdrawn – when the employee accepts;
- (ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and
- (iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 9.

(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 20 to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

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.

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

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

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

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. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

(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.

3. REVENUE

	Consolidated Group	
	2012	2011
	\$	\$
Sales	79,729	5,019
Other income	117,418	67,015
	<u>197,147</u>	<u>72,034</u>
Interest received - other persons	<u>44,385</u>	<u>79,277</u>

4. OTHER EXPENSES

Minimum lease payments relating to operating leases	40,567	35,812
Foreign exchange loss	1,202	861

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	
	2012	2011
	\$	\$
(a) Stantons International (Australia)		
- audit and review of financial reports	28,172	40,624
- other accounting services relating to the Alexium Limited Acquisition	-	-
(b) Williams, Benator & Libby (USA)		
- agreed upon procedures	<u>12,068</u>	<u>12,547</u>
	<u>40,240</u>	<u>53,171</u>

6. TAXATION

(a) Income tax recognised in profit and loss

Prima facie tax on operating loss before income tax at 30%	(878,000)	(961,124)
Tax effect of permanent and temporary differences not booked	91,762	700,449
Tax losses not brought to account	582,553	(13,705)
Income tax benefit attributable to reversal of deferred tax liability on intangible assets	(203,685)	(274,380)

(b) Deferred tax liabilities

Deferred tax liabilities at 30 June brought to account:

Intangible assets	2,987,377	3,191,062
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(c) Deferred tax assets

Deferred tax assets at 30 June not brought to account:

Employee benefits	5,471	3,207
Other	3,354	14,089
Income tax losses	2,146,351	1,139,251
	2,155,176	1,156,547

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 \$6,548,896 (2011: \$3,459,629) 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 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

	Consolidated 2012 Number	Consolidated 2011 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	129,030,743	108,184,753
	\$	\$
Basic loss	(2,722,983)	(2,929,364)

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 2012 Number of securities	Consolidated 2011 Number of securities
Options over ordinary shares	30,540,000	37,790,000
Performance Shares	52,500,000	52,500,000
	83,040,000	90,290,000

8. TRADE AND OTHER RECEIVABLES

	Consolidated Group	
	2012	2011
	\$	\$
Current		
Trade debtors	93,344	9,838
Other receivables	13,305	9,430
	106,649	19,268

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

9. OTHER ASSETS

Current		
Prepayments	55,252	37,083

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

10. PROPERTY, PLANT & EQUIPMENT

	Consolidated Group	
	2012	2011
	\$	\$
Furniture and Equipment		
Cost	343,482	243,725
Accumulated depreciation	(67,993)	(26,216)
Net book value	<u>275,489</u>	<u>217,509</u>
Leased assets		
Cost	196,828	188,730
Accumulated depreciation	(131,219)	(63,002)
Net book value	<u>65,609</u>	<u>125,728</u>
Total property, plant and equipment	<u>341,098</u>	<u>343,237</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	
	2012	2011
	\$	\$
Furniture & equipment		
Balance at the beginning of year	217,509	98,773
Additions at cost	99,757	141,434
Depreciation expense	(41,777)	(22,698)
	<u>275,489</u>	<u>217,509</u>
Leased assets		
Balance at the beginning of year	125,728	41,549
Additions at cost	8,098	147,181
Depreciation expense	(68,217)	(63,002)
	<u>65,609</u>	<u>125,728</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

11. INTANGIBLE ASSETS

	Consolidated Group	
	2012	2011
	\$	\$
Patents and intellectual property		
Cost	11,985,059	12,045,195
Accumulated amortisation	(1,652,917)	(944,223)
Net carrying value	<u>10,332,142</u>	<u>11,100,972</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	
	2012	2011
	\$	\$
Balance at the beginning of year	11,100,972	11,782,498
Additions at cost ⁽¹⁾	41,781	27,047
Impairment	(101,917)	-
Amortisation expense	(708,694)	(708,573)
	<u>10,332,142</u>	<u>11,100,972</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	
	2012	2011
	\$	\$
Current		
Trade creditors	32,896	133,968
Other creditors	68,111	43,863
	<u>101,007</u>	<u>177,831</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
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	
	2012	2011
	\$	\$
Current - deferred income	65,562	62,865
Non-current - deferred income	-	62,865

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	
	2012	2011
	\$	\$
139,888,221 (2011: 123,458,402) Ordinary shares fully paid	17,601,756	16,416,070
26,250,000 (2011: 26,250,000) Performance Shares A	1,312,500	1,312,500
26,250,000 (2011: 26,250,000) Performance Shares B	787,500	787,500
Total issued capital	19,701,756	18,516,070

(b) Movements in share capital

	2012	2012	2011	2011
	Number	\$	Number	\$
Balance of ordinary shares at beginning of year	123,458,402	16,416,070	107,871,688	15,097,558
Shares issued, net of costs	16,429,819	1,185,686	15,586,714	1,318,512
Balance of ordinary shares at end of year	139,888,221	17,601,756	123,458,402	16,416,070
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
		19,701,756		18,516,070

* 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 12,000,000 free attaching options outstanding (2011: 7,000,000) and 18,540,000 share based payment options outstanding (2011: 30,790,000). Refer to note 15 for details of the share based payment options outstanding.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
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
2012 year								
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	1,250,000	-	-	(1,250,000)	-
Unlisted options	26/02/10	\$0.50	26/02/14	1,250,000	-	-	-	1,250,000
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
Unlisted options	16/09/11	\$0.15	31/12/15	-	5,000,000	-	-	5,000,000
Unlisted options	22/02/12	\$0.125	22/08/13	-	5,000,000	-	-	5,000,000
				37,790,000	10,000,000	-	(17,250,000)	30,540,000

	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
2011 year								
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)	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
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

17,250,000 options expired during the periods covered by the above tables (2011: Nil). No options lapsed during the year (2011: 2.5 million).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

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

(a) Shares

	2012 Number	2012 Value per Share \$	2012 \$
Share-based payments issued during the year for services received	50,000	0.09	4,500
Share-based payments issued during the year for services received	175,000	0.086	15,000
Share-based payments issued during the year for payment in lieu of salary	1,204,819	0.083	100,000
Total	1,429,819		119,500

There were no share based payment shares issued in 2011.

Performance Shares

There were no share based payment performance shares issued in 2012.

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

(b) Options

	2012 Number	2012 Value per option \$	2012 \$
Share-based payments vesting during the year for:			
- services rendered	-		4,202*
- options not yet vested, expired	-		(4,501)
	-		(299)

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

Share-based payments vesting during the year for:			
- ESOP			89,367*
- ESOP			4,915*
- ESOP	5,000,000	0.007448	23,576*
	17,750,000		117,858
Total			117,559

* Pro-rata over vesting period.

	2011 Number	2011 Value per option \$	2011 \$
Share-based payments vesting during the year for:			
- services rendered	2,500,000	0.018395	45,988
- services rendered	-	0.003928	2,133*
- services rendered	-	0.009519	1,488*
	2,500,000		49,609

* 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
	9,250,000		105,087
Total	11,750,000		154,696

* Pro-rata over vesting period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

(c) Shares and Options

	2012	2011
	\$	\$
Share based payments in Shares 15 (a)	119,500	-
Share based payments in Options 15 (b)	117,559	154,696
Totals	<u>237,059</u>	<u>154,696</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

Share Based Payment Options Issued

	Grant date	Exercise Price	Expiry date	Balance at beginning of year	Granted during the year	Exercised during the year	Other changes during the year (Expired) Number	Balance at end of year	Vested and exercisable at the end of period
				Number	Number	Number	Number	Number	Number
2012 year									
Unlisted options	26/02/10	\$0.30	26/02/12	11,000,000	-	-	(11,000,000)	-	-
Unlisted options	26/02/10	\$0.40	26/02/12	1,250,000	-	-	(1,250,000)	-	-
Unlisted options	26/02/10	\$0.50	26/02/14	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	4,000,000
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	-
Unlisted options	22/06/11	\$0.10	21/06/16	540,000	-	-	-	540,000	540,000
Unlisted options	21/09/11	\$0.15	31/12/15	-	5,000,000	-	-	5,000,000	1,000,000
				25,790,000	5,000,000	-	(12,250,000)	18,540,000	8,790,000
Weighted average exercise price (\$)				0.30	0.15			0.20	0.19

	Grant date	Exercise Price	Expiry date	Balance at beginning of year	Granted during the year	Exercised during the year	Other changes during the year Number	Balance at end of year	Vested and exercisable at the end of period
				Number	Number	Number	Number	Number	Number
2011 year									
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	-
Unlisted options	22/06/11	\$0.10	21/06/16	-	540,000	-	-	540,000	540,000
				16,000,000	12,290,000	-	(2,500,000)	25,790,000	16,790,000
Weighted average exercise price (\$)				.33	0.22			0.30	0.29

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

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

The weighted average remaining contractual life of share options outstanding at the end of the financial years was 3.26years (2011: 2.45 years), and the exercise prices range from 10 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:

Issued 2012	OPTION SERIES
Expiry date	31/12/15
Dividend yield (%)	-
Expected volatility (%)	40
Risk-free interest rate (%)	3.87
Expected life of options (years)	4.29
Underlying share price (\$)	0.06
Option exercise price (\$)	0.15
Value of Option (\$)	0.007448

Issued 2011	OPTION SERIES				
Expiry date	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	
	2012	2011
	\$	\$
Option premium reserve	515,444	397,885
Foreign currency translation reserve	(212,934)	(234,471)
Balance at end of year	302,510	163,414

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

Option premium reserve

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

	Consolidated Group	
	2012	2011
	\$	\$
Balance at beginning of year	397,885	211,701
Share-based payment expense (Note 15(b))	117,559	154,696
Share-based payment - capital raising cost		31,488
Balance at end of year	<u>515,444</u>	<u>397,885</u>

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 2 (d). The reserve is recognised in profit and loss when the net investment is disposed of.

	Consolidated Group	
	2012	2011
	\$	\$
Balance at beginning of year	(234,471)	(33,000)
Foreign currency translation differences arising during the year	<u>21,537</u>	<u>(201,471)</u>
Balance at end of year	<u>(212,934)</u>	<u>(234,471)</u>

	Consolidated Group	
	2012	2011
	\$	\$
17. ACCUMULATED LOSSES		
Balance at beginning of year	(8,707,632)	(5,778,268)
Net loss attributable for the year	<u>(2,722,983)</u>	<u>(2,929,364)</u>
Balance at end of year	<u>(11,430,615)</u>	<u>(8,707,632)</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	
	2012	2011
	\$	\$
Cash on hand	<u>906,658</u>	<u>1,972,737</u>

Cash at bank attracts floating interest at current market rates.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

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

	Consolidated Group	
	2012	2011
	\$	\$
Operating profit/(loss) after income tax	(2,722,983)	(2,929,364)
Non-cash items		
Depreciation and amortisation of non-current assets	812,785	794,273
Impairment	101,917	24,694
Share-based payment	237,059	154,696
Unrealised foreign exchange loss	24,246	(137)
Grant Income	(64,318)	(67,015)
Income Tax Benefit	(203,685)	(274,380)
Changes in assets and liabilities net of effect of purchase of subsidiaries		
(Increase)/Decrease in receivables	(86,876)	40,275
(Increase)/Decrease in other current assets	(16,365)	4,646
Increase / (Decrease) in payables	(45,455)	(83,898)
Net cash (used in) operating activities	<u>(1,963,675)</u>	<u>(2,336,210)</u>

(c) Non-cash Financing and Investing Activities

- 1) During the 2011 financial year, 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 2012, 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 was received by Alexium Inc during the year ended 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)	
		2012 %	2011 %
Parent Entity			
Alexium International Group Limited	Australia		
Subsidiaries of Alexium International Group Limited			
Alexium Limited	Cyprus	100	100
Alexium Inc	United States of America	100	100

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
- Mr Stefan Susta

The Company Secretary is Mr Nicholas Clark

Other key management personnel during the financial year were:

- Mr Halis Alkis – Interim Chief Executive Officer (up to March 8 2012)
- Mr John Almond – Business Development Manager Europe
- Dr Bob Brookins – Chief Technology Office
- Mr Nicholas Clark – Chief Financial Officer and Company Secretary

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
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	
	2012	2011
	\$	\$
Short-term benefits	651,070	840,298
Post employment benefits	7,650	7,650
Termination benefits	-	42,061
Share-based payments	177,557	86,251
	<u>836,277</u>	<u>976,260</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:

-5 million ESOP Options (2011: 6.5 million ESOP Options) with a value of \$37,242 (2011: \$82,631); out of which \$23,576 vested in 2012

(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.

2012

Name	Balance at start of year	Granted during year as remuneration	Exercised during year	Other changes during year (expired)	Balance at end of year	Options Vested and exercisable at end of year
	Number	Number	Number	Number	Number	Number
<u>Directors</u>						
Mr G Rezos	7,400,000	2,000,000	-	(2,250,000)	7,150,000	6,150,000
Mr C Smith-Gander	1,000,000	1,000,000	-	(1,000,000)	1,000,000	-
Mr S Susta	1,500,000	2,000,000	-	(1,500,000)	2,000,000	-
Total Directors	9,900,000	5,000,000	-	(4,750,000)	10,150,000	6,150,000
<u>Executives</u>						
Mr J Almond	5,000,000	-	-	(3,750,000)	1,250,000	-
Dr B Brookins	3,000,000	-	-	-	3,000,000	1,000,000
Mr H Alkis	1,500,000	-	-	-	1,500,000	1,500,000
Mr N Clark	2,000,000	-	-	-	2,000,000	1,000,000
Total Executives	11,500,000	-	-	(3,750,000)	7,750,000	3,500,000
Total Directors and Executives	21,400,000	5,000,000	-	(8,500,000)	17,900,000	9,650,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

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
<u>Directors</u>						
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
Total Directors	12,400,000	-	-	(2,500,000)	9,900,000	9,900,000
<u>Executives</u>						
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
Total Executives	5,000,000	6,500,000	-	-	11,500,000	5,000,000
Total Directors and Executives	17,400,000	6,500,000	-	(2,500,000)	21,400,000	14,900,000

* Balance at date of appointment

Balance at date of resignation

(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. 1,204,819 shares were granted during the reporting year as compensation.

2012

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
<u>Directors</u>							
Mr G Rezos	12,785,957	2,500,000	-	1,304,819	-	14,090,776	2,500,000
Mr C Smith-Gander	114,286	-	-	-	-	114,286	-
Mr S Susta	-	-	-	-	-	-	-
Total Directors	12,900,243	2,500,000	-	1,304,819	-	14,205,062	2,500,000
<u>Executives</u>							
Mr J Almond	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr H Alkis	-	-	-	-	-	-	-
Mr N Clarke	-	-	-	-	-	-	-
Total Executives	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Total Directors and Executives	27,413,243	24,585,000	-	1,304,819	-	28,718,062	24,585,000

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

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
<u>Directors</u>							
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	-	-	-	-	-	-	-
Total Directors	29,919,576	30,415,000	-	1,324,810	-	31,244,386	30,415,000
<u>Executives</u>							
Mr H Alkis	-	-	-	-	-	-	-
Mr J Almond *	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Dr B Brookins	-	-	-	-	-	-	-
Mr N Clarke *	-	-	-	-	-	-	-
Total Executives	14,513,000	22,085,000	-	-	-	14,513,000	22,085,000
Total Directors and Executives	44,432,576	52,500,000	-	1,324,810	-	45,757,386	52,500,000

* Balance at date of appointment

Balance at date of resignation

(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) \$121,608 (2011:\$89,086) for reimbursement of salary and wages in relation to administration and bookkeeping personnel provided by Viaticus Capital of which G Rezos is a director.
 - (b) \$239,959 (2011: \$100,626) to reimburse sums paid by Viaticus on behalf of Alexium for travel and relocation expenses, administration services and equipment purchase. Of this, \$7,069 in expense reimbursements remained unpaid to Viaticus as at 30 June 2012.
 - (c) \$41,415 (2011: Nil) for office rent.
 - (d) \$Nil (2011: \$45,000) for investor relations services.

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	
	2012	2011
	\$	\$
Cash at bank and in hand	906,658	1,972,737
Short-term deposit	-	-
Net exposure	906,658	1,972,737

The weighted average effective interest rate of financial instruments held at balance date was:
Cash & cash equivalents 3.18% (2011: 4.28%)

Sensitivity risk

At 30 June 2012, 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 \$9,066 higher (2011: changes of 1% \$19,727 higher/\$19,727 lower).

The 1% (2011: 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 2012
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.

2012 Consolidated Group	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	2,958,464	-	352,534	-	3,310,998
US dollar	-	-	(945,280)	-	(945,280)
UK pound sterling		-	-	-	
Statement of financial position exposure	2,958,464	-	(592,746)	-	2,365,718

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

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 22nd 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.

23. PARENT ENTITY INFORMATION

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2012. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	Parent Entity	
	2012	2011
	\$	\$
Current Assets	904,526	1,799,227
Non-current assets	15,384,420	14,250,900
Total Assets	16,288,946	16,050,127
Current liabilities	51,395	75,665
Non-current liabilities	-	-
Total Liabilities	51,395	75,665
Contributed equity	19,701,756	18,516,070
Accumulated losses	(3,979,650)	(2,939,493)
Reserves	515,445	397,885
Total equity	16,237,551	15,974,462
Loss for the year	(1,040,157)	(1,355,004)
Other comprehensive income net of tax for the year	-	-
Total comprehensive income net of tax for the year	(1,040,157)	(1,355,004)

The Company's commitments and contingencies are items 2 to 6 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 under patent application in the United States in exchange for a 2.5% gross sales royalty to be paid to the US Government. Alexium has also entered into an agreement with Dr Owens for exclusive rights to the rest of the world, for the same patent application excluding the United States, in exchange for a 5% gross sales royalty to be paid to Dr Owens.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

- 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 executive director fees to Mr Susta of US\$155,000 pa.
- 3) 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.
- 4) 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 Euro 20,000 per annum. The contract can be terminated by either party giving 2 months notice.
- 5) On August 18 2011 Alexium appointed Merriman Capital, Inc. to act as its Principal American Liaison (PAL) for the company's securities to trade on the OTCQX marketplace in the United States for US\$25,000 per annum. The contract can be terminated by either party providing 30 days written notice to the other.
- 6) On February 9 2012 the Group entered into an agreement with Baker Young Stockbrokers Limited to provide corporate advisory services for \$5,000 per month for a period of 12 months.

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	
	2012	2011
	\$	\$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	34,671	46,365
Later than one year but not later than 5 years	-	35,904
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 during the year ended 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 2012.

(b) **Contingencies**

The Group has no contingent liabilities as at 30 June 2012.

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

As reported on August 8 2012 Alexium closed a commercial deal with Duro Textiles, one of the United States' largest finishers and distributors of textile products, to license its environmentally friendly, bromine and halogen free, Flame Retardant (FR) Nylon Treatment.

Alexium has been awarded a \$200,000 contract with the US Air Force Research Laboratory to demonstrate Cleanshell® CB treatments for chemical and biological protection applications. This contract follows two other purchase orders by the US Army over the last year and will further validate RST technology for defence applications.

The Australian patent office has granted Alexium a patent for the "Method for Attachment of Silicon-containing Compounds to a Surface and for Synthesis of Hypervalent Silicon-compounds" (Australia Patent No. 2006290509).

On 10 September 2012, the Group announced that it has placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. The Group will use the funds from this placement to progress its development work in the speciality chemical solutions area, focusing on flame retardant treatments and Flame retardant additives.

The notes have the following key terms:

- A maturity date of 30 August 2014.
- Coupon rate of 13% per annum with interest paid quarterly in arrears.
- Convertible notes are unlisted and unsecured and are convertible to fully paid ordinary shares
- Conversion price is lesser of:
 - \$0.10 per share OR;
 - 87.5% of the previous 30 day volume weighted average price for the Company's ordinary shares OR;
 - In the event of a future issue of ordinary shares during the term, the price of issue of such fully paid ordinary shares.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012
ALEXIUM INTERNATIONAL GROUP LIMITED

- The note holder may elect to convert the convertible notes at any time after 90 days from the Allotment Date until the Maturity Date.

The Group has received firm commitments for \$1.1 million and to the date of signing this report has received \$892,500 out of the total capital raising of \$1.1 million.


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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 2012 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 9 to 17 of the directors' report (as part of the audited Remuneration Report) for the year ended 30 June 2012, 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, 26th September 2012

**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 2012, 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 2012 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 10 to 18 of the directors' report for the year ended 30 June 2012. 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 2012 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
26 September 2012

ADDITIONAL INFORMATION

ALEXIUM INTERNATIONAL GROUP LIMITED

The distribution of members and their holdings at 21 September 2012 was as follows:-

NAME OF 20 LARGEST ORDINARY SHAREHOLDERS	NUMBER OF ORDINARY FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
HSBC Custody Nominees (Australia) Limited – A/C 3	15,343,681 *	10.96
Piper Buchanan Limited	14,513,000 *	10.37
HSBC Custody Nominees (Australia) Limited - A/C 2	12,182,330 *	8.70
ABN Amro Clearing Sydney Nominees Pty Ltd	11,283,203 *	8.06
Aymon Pacific Pty Ltd	9,250,779 *	6.61
JP Morgan Nominees Australia Ltd	8,021,208 *	5.73
Korcula (BVI) S A	6,450,000	4.61
Rezos GJ & JE	4,320,185	3.09
Peter Macskasy Barnes	2,600,000	1.86
Oaktone Nominees Pty Ltd	2,162,632	1.55
Dilato Holdings Pty Ltd	1,250,000	0.89
Seafield Superannuation Pty Ltd	1,250,000	0.89
Viaticus Capital ATF Nicholas Otty	1,250,000	0.89
Mr Nick Otty	1,165,000	0.83
Citicorp Nominees Pty Ltd	1,034,900	0.74
Mr Stephen Bernard Nicholas	937,500	0.67
Australian Global Capital P/L	870,408	0.62
Mr A B Utturkar & Mrs R A Utturkar	800,000	0.57
Mr Peter Gebhardt & Mrs Carlene Gebhardt	781,796	0.56
National Nominees Limited	771,569	0.55
	<u>96,238,191</u>	<u>68.76</u>

MARKETABLE PARCEL

At 21 September 2012, 503 shareholders held less than a marketable parcel.

SUBSTANTIAL SHAREHOLDERS

Shares held by substantial shareholders listed in the company's register at 21 September 2012 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.

Quotation has been granted on the Frankfurt Exchange

Alexium is fully quoted on the OTCQX

DISTRIBUTION OF SHAREHOLDERS

	Shareholders
1 - 1,000 shares	401
1,001 - 5,000 shares	90
5,001 - 10,000 shares	76
10,001 - 100,000 shares	445
100,001 and over	133
Total Ordinary Shareholders	<u>1,145</u>