



# **ALEXIUM INTERNATIONAL GROUP LIMITED**

**ABN 91 064 820 408**

## **FINANCIAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2015**

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## COMPANY DIRECTORY

### ALEXIUM INTERNATIONAL GROUP LIMITED

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**DIRECTORS:**

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

**COMPANY  
SECRETARY:**

Ms Kim Lucraft

**REGISTERED AND  
PRINCIPAL OFFICE:**

Level 18 Central Park  
152-158 St Georges Tce  
Perth WA 6000  
Telephone: +61 8 9384 3160  
Facsimile: +61 8 6314 1623

**AUDITORS:**

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

**SHARE REGISTRY:**

Computershare Investor Services Pty Ltd  
Level 11  
172 St Georges Terrace  
PERTH WA 6000

Telephone: 1300787575  
Facsimile: (08) 9323 2033

**BANKERS:**

Macquarie Bank  
235 St Georges Terrace  
Perth WA 6000

**SOLICITORS:**

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

**ABN:**

91 064 820 408

**DOMICILE AND COUNTRY  
OF INCORPORATION:**

Australia

**LEGAL FORM OF ENTITY:**

Listed Public Company

**SECURITY EXCHANGE:**

Australian Securities Exchange (Perth) Limited  
ASX Code: AJX

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

OTCQX : Ticker Code AXXIY

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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30 September 2015

Dear Shareholders

I am pleased to present your Company's annual report for 2015. Alexium has successfully moved into commercialisation of our award winning and environmentally friendly fire retardant (FR) and specialty chemical technologies as demonstrated by growing revenues and increasing number of commercial partners launching products into the market with our FR treatments.

Important catalysts for this step change have been the growing public and legislature awareness in the United States regarding the effects of bromine and halogenated fire retardants on both humans and the environment as well the US Defense Department's "green initiatives". However, Alexium's place in these growing trends were cemented by our CEO, Nicholas Clark, moving to Washington to regularly showcase our FR product strengths to defense and consumer protection agencies of the US Government and ensuring both Congress and the Senate were aware of the environmental, cost and performance benefits of our FR technologies.

These initiatives were bolstered by the visit of US Senator Lindsey Graham as well as Congressman Trey Gowdy's to our Greer operational headquarters has also demonstrated the interest in our potential to provide safe and cost effective products to US Government Agencies whilst adding to the South Carolina economy and we continue to remain grateful to the SCRA for their recognition and support.

This growing awareness is enhanced by our key FR treatments being marketed under the Alexiflam™ brand which is gaining recognition in the US market and through our partner iTextiles, in Europe. Further, we have commercial partners working on co-branding strategies with Alexiflam™ and other partners applying our FR treatments in their production facilities in the US, Mexico, Asia and Europe. In addition to new customers in the transport, outdoor tenting, soft furnishings and bedding market we also recently commenced sales to Murdoch Webbing, a major supplier of FR stretch and rigid webbing in the US commercial and defense markets.

Alexium has also made solid progress in the area of FR additives for polymers and plastics for industrial use including building materials, electronics sector and bromine FR replacement opportunities. These are next generation products to enable Alexium to expand into these large and valuable markets where bromine and halogens have been used as the main FR additive. We will also be moving to commercialisation opportunities for our Reactive Surface Technology (RST) which has applications in specialty treatments for chemical and biological protection and heat sensitive materials in 2016.

In addition to the tireless efforts of Nick Clark, your Company's success is a reflection of the commitment of all our staff and in particular our leadership team in South Carolina comprising Dirk Van Hyning (President), Dr Bob Brookins (VP R&D) and Steve Gravlee (VP Sales). Our staff remuneration continues to be highly performance based as the major contributor relative to the market and the fact that our staff are willing to have their remuneration strongly performance based is an endorsement of the quality and ability of your Company's staff and an endorsement of your Company's products.

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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Your Board thanks you for your continued support. We aim to continue to grow shareholder returns in 2016 following a very strong year of shareholder return this year.

Yours Faithfully



Gavin Rezos

*Chairman*

**Alexium International Group Limited**

#### **Highlights for the Year include:**

- **July 2014**
- Alexium completes production trials at Euroflam on European customer fabrics;
- **August 2014**
- Alexium awarded grant by the South Carolina/Israel Collaborative Industry R&D Program for collaboration with ICL, Inc, one of Israel's largest companies.;
- Production trials to be undertaken by a major supplier of vehicle upholstery to the North American car manufacturers market;
- **September 2014**
- US Representative, Congressman Trey Gowdy visits Alexium facilities;
- **October 2014**
- Alexium and iTextiles agree to co-brand;
- Alexium expands into wool markets;
- US Senator Lindsey Graham visits Alexium facilities;
- **November 2014**
- Alexium expands commercialization in transportation markets;
- Alexium partners with New York based EAS Advisors;
- Alexium CEO meets key legislators in support of Eco-Friendly Flame Retardants;
- Craig Metz joins Alexium Board as Independent Non-Executive Director;

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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- **December 2014**
- Alexium invited to participated in funded program to deliver improved FR Army Combat Uniforms (FRACU) to the US DoD;
- President Obama signs 2015 National Defense Authorization Act which includes provisions in relation to fire retardants;
- **January 2015**
- Independent Market Analysis of Global Flame Retardant Chemistry Market Validates Potential of Alexium;
- Alexium commences first significant commercial sector account;
- **February 2015**
- Alexium lands second commercial sector account in the cotton and wool sector;
- Alexium completes and delivers on stage one- Environmentally-Friendly FR Nylon-Cotton (NyCo) Fabric to Natick for downselect testing for FR Army Combat Uniform;
- **March 2015**
- President Obama announces Institute for Manufacturing innovation in revolutionary fibers and textiles;
- Alexium completes exclusive negotiations on new account;
- Alexium releases Fosters Stockbroking report;
- **April 2015**
- Alexium increases key staff positions to meet marketplace demand for Alexium FR Chemistry;
- US Brigadier General Stephen Cheney USMC (ret) joins Alexium Board as Non-Executive Director;
- Alexium CEO Meets with Key Officials on US Capitol Hill;
- Natick (US Army Solider Systems Center) selects Alexium to proceed to second stage of development of non-inherent FR 50/50 NyCo FR Army Combat Uniforms;
- **May 2015**
- Alexium expands Outdoor Market into Asia;
- Alexium receives Purchase Order and commences work with new client in the home furnishings market;
- Alexium increases global customer base at Techtextil Show in Frankfurt;
- New Defense sector customer for advanced textiles comprising exotic materials for specific defense sector applications;

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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- **June 2015**
- New European Client in Transportation market commences work;
- Co-branding and licensing agreement; US-Based Large Commission finishing customer in Home Furnishings Sector;
- New Purchase Order/Client Advances progress in the Defense Sector;
- **July 2015**
- iTextiles and Alexium formally commence sales and distribution partnership;
- Work commences on outdoor industrial fabric market with customer Purchase Order;
- Alexium appoints Grant Thornton as Auditors;
- **August 2015**
- Purchase Order received for second military scale up;
- Alexium invited to present as emerging technology at Jefferies Industrial Conference in NY;
- Major Bedding customer increases orders with Alexium;
- Alexium expands staff in key roles;
- Alexium receives further purchase orders from Major Bedding customer;
- Alexium invited as cutting edge innovators to attend key US military conference- Defense Innovation Days;
- **September 2015**
- Key staff added for 2016 growth strategy;
- Murdock Webbing announces Alexium as new provider of FR Chemistry;

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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Your Directors submit their report together with the financial report of Alexium International Group Limited ("the Company") for the year ended 30 June 2015:

#### 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 and was a Non-Executive Director of Rowing Australia, the peak Olympic sports body for rowing in Australia from 2009 until 2014. He is currently a Non-Executive Director of Iluka Resources Limited and a Principal of Viaticus Capital LLC.

**Mr Craig Smith-Gander** BA (Military), M.Com, Non-executive Director

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

**Mr Nicholas Clark** BEc, LLB, MBA, CPA, F FIN, Executive Director and CEO

Mr Clark was appointed to the board on March 18 2013. Mr Clark originally commenced with Alexium International as the Group's CFO and Company Secretary until March 2013. Mr Clark has extensive experience in executive management, mergers and acquisitions globally. He has held roles such as Deputy Head, Mergers and Acquisitions, Head of Foreign Investments, and Head of Commercial and Contract Services, in particular with CITIC, one of China's largest resource groups.

**Mr Craig Metz** D.Jur., Non-executive Director

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

**Brigadier General Stephen Cheney** USMC (ret), Non-executive Director

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

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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

<b>Name</b>	<b>Company</b>	<b>Commenced</b>	<b>Ceased</b>
Mr Gavin Rezos	Iluka Resources Ltd	20 June 2006	-
Mr Craig Smith-Gander	None	-	-
Mr Nicholas Clark	None	-	-
Mr Craig Metz	None		
Brigadier General Stephen Cheney	None		

#### *Interests in the shares and options of the Company*

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

<b>Name</b>	<b>Number of ordinary shares</b>	<b>Number of Performance shares</b>	<b>Number of options over ordinary shares</b>
Mr Gavin Rezos	24,675,000	-	2,000,000
Mr Craig Smith-Gander	615,166	-	2,250,000
Mr Nicholas Clark	8,820,000	-	-
Mr Craig Metz	-	-	-
Brigadier General Stephen Cheney	-	-	-

#### COMPANY SECRETARY

Ms Kim Lucraft was appointed company secretary on 5 February 2015.

#### PRINCIPAL ACTIVITY

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

#### RESULTS AND REVIEW OF OPERATIONS

The Group's net loss attributable to members of the Company for the financial year ended 30 June 2015 was \$11,763,566 (2014 restated: \$3,336,527).

As at 30 June 2015 the cash position was \$11,621,603 (2014: \$4,197,460) and the Company had 261,350,490 ordinary shares on issue (2014: 202,025,435).

#### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Contributed equity increased by \$16,558,057 (from \$24,805,339 restated to \$41,363,396) as the result of \$5,099,593 of convertible notes being converted to shares, options converted to shares of \$1,822,000 and capital raisings of \$10,100,000 less capital raising costs of \$809,281. There was also \$345,745 of shares issued in lieu of salary.

#### 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 29,825,000 unissued ordinary shares under option (2014: 19,415,000). Details of these options are as follows:

<i>Date Options Granted</i>	<i>Expiry Date</i>	<i>Exercise price of shares</i>	<i>Number under option</i>
30 November 2012	31 December 2016	\$0.074	2,500,000
21 March 2011	31 December 2015	\$0.15	4,355,000
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
1 September 2014	31 August 2017	\$0.18	450,000
10 November 2014	9 November 2016	\$0.25	3,930,000
10 November 2014	9 November 2017	\$0.198	750,000
13 May 2015	31 December 2017	\$0.70	1,000,000
13 May 2015	31 December 2017	\$0.80	1,000,000
20 May 2015	31 August 2017	\$0.13	1,500,000
6 May 2015	7 May 2018	\$0.75	7,800,000
			<u>29,825,000</u>

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company. 2,770,000 options were exercised at \$0.15 (2014: 375,000), 2,500,000 options exercised at \$0.30 (2014: Nil), 750,000 options exercised at \$0.08 (2014: Nil), 1,570,000 options exercised at \$0.25 (2014: Nil), 300,000 options exercised at \$0.18 (2014: Nil) and 750,000 options exercised at \$0.20 (2014: Nil). 750,000 options were forfeited during the year (2014: 1.5 million) and Nil options expired during the year (2014: 4,436,663). During the year 18,300,000 options were issued (2014: Nil).

The group has 8,500,000 performance rights on issue. The performance rights were granted on 10 November 2014 and were subject to ASX approved performance criteria. The terms and conditions of the performance rights are detailed in Note 16(c).

#### AFTER BALANCE DATE EVENTS

Since 30 June 2015 4,575,000 \$0.15 options, 130,000 \$0.25 options, 275,000 \$0.18 options, 250,000 \$0.70 options and 473,760 \$0.75 options have been converted.

#### FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

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

The Group has focused on specific applications where its specialty chemicals solutions can clearly enable new value-added products. The commercial roll-out of existing FR treatments and developing other environmentally-friendly FR solutions represent the largest commercial opportunity for the Group. In this area, the Group has three proprietary commercial chemistries (Alexiflam FR, Alexiflam SYN, Alexiflam NF) which it formulates with other textile chemistries from its Alexiflam C product line to FR treat virtually any textile substrate (i.e. nylon, nylon/cotton, polyester, polycottons, acrylics and natural fibers). Therefore, near-term, the Group is focused on extending these existing technologies to quickly

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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address market needs and generate revenues. To this end the Company has made a dedicated approach in the commercial sector in four key textile areas: home furnishings (including bedding), transportation (automotive and public transit), outdoor (tenting, awnings, outdoor furniture) and work wear.

In addition to our commercial sector efforts, the Group has a robust strategy for the military sector, both domestically and worldwide. Military textile programs worldwide are largely based on either 50/50 nylon-cotton (predominantly for uniforms) or 100% nylon (for protective covers, tenting, etc), and the Group has developed durable, cost-effective solutions for both. Alexium is working with a combination of government entities (such as the U.S. Army Natick Soldier Systems Center), prime contractors to the military and private suppliers to various Departments of Defense worldwide to gain a wide range of programs. This work will be in addition to our continuing work on Reactive Surface Treatments in the areas of chem-bio, understanding that each award is made on a competitive basis and subject to transition periods.

To demonstrate the desired performance on both laboratory as well as production level product, the Group has maintained an operation in Greer, South Carolina. With this infrastructure and by teaming with development partners, the Group has focused on creating production ready technologies. 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 entering into collaborative agreements with companies such as iTextiles who have a global presence in the European and Middle East markets.

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

#### **ENVIRONMENTAL ISSUES**

The Group's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory. The Directors have considered compliance with the National Greenhouse and Energy Reporting Act 2007 which requires entities to report annual greenhouse gas emissions and energy use. For the period 1 July 2014 to 30 June 2015 the Directors have asserted that there are no current reporting requirements, but may be required to do so in the future.

#### **REMUNERATION REPORT**

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 - Executive Chairman
- Mr Craig Smith - Gander – Non Executive Director
- Mr Nicholas Clark - Executive Director and CEO
- Mr Craig Metz – Non Executive Director - Appointed 1 December 2014
- Brigadier General Stephen Cheney – Non Executive Director - Appointed 13 April 2015

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

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

- Dr Bob Brookins – Head of Research and Development
- Mr Stefan Susta – VP Sales and Marketing
- Dr Dirk Van Hying – Head of Product Development and Commercial Transition

#### 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.

#### *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

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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allowed under clause 13.8 of the constitution approved by shareholders on 27 May 2008. Non-Executive Directors do not receive any other retirement benefits other than a superannuation guarantee contribution required by Australian government regulation, which is currently 9.5% of their fees.

#### *Terms of Executive Service Agreements*

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

#### **Mr Gavin Rezos, Executive Chairman**

- Term: the initial term of the Service Agreement was 12 months from 29 March 2010.
- Salary: A salary of US \$150,000 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 10 November 2014, shareholders approved the issue of 2.5 million Performance Rights, subject to vesting conditions.
- Termination: Mr Rezos may terminate the Service Agreement without cause upon giving 9 months written notice to the Company or 3 months notice should the Company so elect. The Company may at its sole discretion terminate the employment without cause by giving 3 months written notice to Mr Rezos and making a payment of 9 months' salary after the expiry of the 3 months written notice period.

#### **Mr Nicholas Clark, Executive Director and CEO**

- Place of Work: Washington DC, United States of America.
- Salary: A salary of US\$250,000 per year (inclusive of director's fees) plus reasonable relocation costs. On 10 November 2014, shareholders approved the issue of 3 million Performance Rights, subject to vesting conditions.
- Termination: Mr Clark 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 Clark or make a payment of 6 months salary in lieu of notice.

#### **Mr Craig Smith-Gander, Non Executive Director**

- Mr Smith-Gander has a letter of appointment.
- Place of Work: Perth, Western Australia.
- Salary: A salary of AU\$31,000 per year (inclusive of director's fees) On 10 November 2014, shareholders approved the issue of 750,000 options exercisable at \$0.198 and expiring 9 November 2017. Termination: Mr Smith-Gander may terminate the Service Agreement without cause.

#### **Mr Craig Metz, Non Executive Director**

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

#### **Brigadier General Stephen Cheney, Non Executive Director**

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

## **DIRECTORS' REPORT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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#### **Mr Stefan Susta, VP Sales and Marketing**

- 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\$165,000 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.
- 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 Susta resigned 31 July 2014.

#### **Dr Bob Brookins, Vice President of Research and Development**

- Term: the initial term of the Service Agreement is 12 months commencing on 1 August 2011 and thereafter on 6 months' notice from either party;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A salary of US\$140,000 per year.
- 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.

#### **Dr Dirk Van Hyning, President**

- Term: the initial term of the Service Agreement is 12 months commencing on 26 April 2013 and thereafter on 6 months' notice from either party;
- Place of Work: South Carolina, United States of America for the term of employment.
- Salary: A salary of US\$150,000 per year.
- Termination: Mr Van Hyning 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 Van Hyning 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 Key Management Personnel being the Directors and Executives during the financial year:

**2015**

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

- (1) Viaticus Capital Pty Ltd, a related party of G Rezos, also received the following:
- \$Nil (2014:\$11,153) 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.
  - \$226,831(2014:\$133,401) to reimburse sums paid by Viaticus on behalf of Alexium for travel and relocation expenses, administration services and equipment purchase.
  - \$Nil(2014:\$36,384) for office rent.
- (2) Stefan Susta resigned 31 July 2014

There were no other Executives of the Company which require disclosure.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2014

	Short-term benefits			Post-employment	Termination Benefits	Share-based payments Shares	Share-based payments Options	Share-based payments Performance rights	Total	Proportion related to performance
	Salary and fees	Bonus	Other benefits	Super-annuation						
	\$	\$	\$		\$			\$	\$	%
<b><u>Directors</u></b>										
Mr G Rezos <sup>(1)</sup>	131,887	-	-	925	-	100,000	11,299	31,096	275,207	-
Mr C Smith-Gander	28,125	-	-	2,602	-	-	3,023	-	33,750	-
Mr N Clark	221,226	-	65,661	-	-	-	-	37,315	324,202	-
<b>Total Directors</b>	381,238	-	65,661	3,527	-	100,000	14,322	68,411	633,159	
<b><u>Executives</u></b>										
Dr Dirk Van Hynning <sup>(2)</sup>	112,796	-	14,623	-	-	-	-	4,975	132,394	
Mr S Susta	161,162	-	19,015	-	-	-	8,673	9,951	198,801	-
Dr B Brookins	132,600	-	16,986	-	-	-	3,505	7,463	160,554	-
<b>Total Executives</b>	406,558	-	50,624	-	-	-	12,178	22,389	491,749	
<b>Total Directors and Executives</b>	787,796	-	116,285	3,527	-	100,000	26,500	90,800	1,124,908	

- (1) Viaticus Capital Pty Ltd, a related party of G Rezos, also received the following:  
 - \$11,153 (2013:\$129,669) 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) Dr Dirk Van Hynning was appointed on 26 April 2013.

There were no other Executives of the Company which require disclosure.

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

The Directors and Executives of the Company were issued with the following share-based remuneration during the year:- 750,000 ESOP Options (2014: Nil) with a value of \$93,904 (2014: Nil) and 1,329,788 shares (2014:778,210) with a value of \$345,745 in lieu of salary (2014: \$128,405). 6,600,000 Performance Rights were issued (2014: 7,300,000) with a value of \$360,360 (2014: 168,630).

#### Options over equity instruments granted as compensation during the year

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

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

2015

Name	Number of options granted during 2015	Grant date	Vesting date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2015
<b><u>Directors</u></b>							
Mr G Rezos	-	-	-	-	-	-	-
Mr Craig Metz	-	-	-	-	-	-	-
Mr C Smith-Gander	750,000	10/11/14	10/11/14	\$0.1244	\$0.198	9/11/17	750,000
Mr Nicholas Clark	-	-	-	-	-	-	-
Brigadier General Stephen Cheney	-	-	-	-	-	-	-
<b><u>Executives</u></b>							
Mr D Van Hying	-	-	-	-	-	-	-
Mr B Brookins	-	-	-	-	-	-	-
Mr S Susta	-	-	-	-	-	-	-

The 750,000 options to C Smith-Gander vested immediately with no service or performance conditions. The primary purpose of the grant of the option is to provide a performance linked incentive component in the remuneration package to motivate and rewards the performance of C Smith-Gander in his role as the director. The grant of the options is a reasonable and appropriate method to provide cost effective remuneration as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of remuneration were given to C Smith-Gander.

No options were issued in 2014.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### Analysis of options over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to each Key Management Personnel of the Group and each of the three named Company executives and Group executives are detailed below.

Name	Number	Grant date	Exercise Price	% vested in year	% forfeited in year	Financial years in which grant vests
<b><u>Directors</u></b>						
Mr G Rezos	2,500,000	30/7/10	\$0.30	-	-	2011
	1,000,000	16/9/11	\$0.15	-	-	2012
	1,000,000	16/9/11	\$0.15	-	-	2014
	1,000,000	30/11/12	\$0.074	-	-	2014
	1,000,000	30/11/12	\$0.074	100%	-	2015
Mr N Clark	1,000,000	21/3/11	\$0.15	-	-	2011
	1,000,000	21/3/11	\$0.15	-	-	2013
Mr C Smith-Gander	500,000	16/9/11	\$0.15	-	-	2013
	500,000	16/9/11	\$0.15	-	-	2014
	250,000	30/11/12	\$0.074	-	-	2014
	250,000	30/11/12	\$0.074	100%	-	2015
	750,000	10/11/14	\$0.198	100%	-	2015
Mr Craig Metz	-	-	-	-	-	-
Brigadier General	-	-	-	-	-	-
Stephen Cheney	-	-	-	-	-	-
<b><u>Executives</u></b>						
Mr D Van Hying	-	-	-	-	-	-
Mr B Brookins	1,000,000	21/3/11	\$0.15	-	-	2012
	1,000,000	21/3/11	\$0.15	-	-	2013
	1,000,000	21/3/11	\$0.25	-	-	2014
Mr S Susta	1000,000	16/9/11	\$0.15	-	-	2013
	1,000,000	16/9/11	\$0.15	-	-	2014
	750,000	30/11/12	\$0.074	-	-	2014
	750,000	30/11/12	\$0.074	-	100%	2015

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### Analysis of movements in options

The movement during the reporting period, by value, of options over ordinary shares in the Company held by each Key Management Personnel is detailed below.

Name	Granted in year \$ (A)	Value of options exercised in year \$ (B)	Lapsed in year \$(c)
<b><u>Directors</u></b>			
Mr G Rezos	-	-	-
Mr N Clark	-	-	-
Mr C Smith-Gander	93,305	-	-
Mr Craig Metz	-	-	-
Brigadier General Stephen Cheney	-	-	-
<b><u>Executives</u></b>			
Mr D Van Hying	-	-	-
Mr B Brookins	-	-	-
Mr S Susta	-	-	-

- (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.

#### Performance rights over equity instruments granted as compensation during the year

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

##### 2015

Name	Number of performance rights granted during 2015	Grant date	Vesting date <sup>(1)</sup>	Fair value per performance right at grant date (\$)	Price payable on vesting per performance right (\$)	Expiry date <sup>(2)</sup>	Number of performance rights vested during 2015
<b><u>Directors</u></b>							
Mr G Rezos	2,500,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	2,500,000
Mr C Smith-Gander	-	-	-	-	-	-	-
Mr Nicholas Clark	3,000,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	3,000,000
Mr Craig Metz	-	-	-	-	-	-	-
Brigadier General Stephen Cheney	-	-	-	-	-	-	-
<b><u>Executives</u></b>							
Mr D Van Hying	600,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	400,000
Mr B Brookins	500,000	10/11/14	30/6/16	\$0.0546	Nil	30/6/16	600,000
Mr S Susta	-	-	-	-	-	-	-

<sup>(1)</sup> Vesting date assumed by Directors.

<sup>(2)</sup> Expiry date if vesting conditions not met

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### Analysis of performance rights over equity instruments granted as compensation

Details of vesting profiles of the performance rights granted as remuneration to each Key Management Personnel of the Group and each of the three named Company executives and Group executives are detailed below.

#### 2015

Name	Number	Grant date	Price payable on vesting per performance right (\$)	% vested in year	% forfeited in year	Financial years in which grant vests <sup>(1)</sup>
<b><u>Directors</u></b>						
Mr G Rezos	2,500,000	10/11/14	Nil	-	-	2016
Mr N Clark	3,000,000	10/11/14	Nil	-	-	2016
Mr C Smith-Gander	-	-	-	-	-	-
Mr Craig Metz	-	-	-	-	-	-
Brigadier General Stephen Cheney	-	-	-	-	-	-
<b><u>Executives</u></b>						
Mr D Van Hyning	600,000	10/11/14	Nil	-	-	2016
Mr B Brookins	500,000	10/11/14	Nil	-	-	2016
Mr S Susta	-	-	-	-	-	-

<sup>(1)</sup> Vesting date assumed by Directors

The service and performance conditions of the performance rights include satisfying the performance milestones as detailed in the Notice of Annual General Meeting approved by the shareholders on 10 November 2015. The performance milestones include share price appreciation and meeting business targets set by the board including revenue and other business development objectives.

#### Analysis of movements in performance rights

The movement during the reporting period, by value, of performance rights over ordinary shares in the Company held by each Key Management Personnel is detailed below.

#### 2015

Name	Granted in year \$ (A)	Value of performance rights vested in year \$ (B)	Lapsed/forfeited in year \$ (C)
<b><u>Directors</u></b>			
Mr G Rezos	136,500	57,750	-
Mr N Clark	163,800	69,300	-
Mr C Smith-Gander	-	-	-
Mr Craig Metz	-	-	-
Brigadier General Stephen Cheney	-	-	-
<b><u>Executives</u></b>			
Mr D Van Hyning	32,760	9,240	-
Mr B Brookins	27,300	13,860	-
Mr S Susta	-	-	(18,480)

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

- (A) The value of performance rights granted in the year is based on the closing share price on 10 November 2014 \$0.26 with a probability discount of 70% and an unlisted status discount of 30% being applied.
- (B) The value of performance rights vested 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 vested.
- (C) The value of the performance rights that lapsed during the year represents the benefit forgone and is calculated at the date the performance rights lapsed.

#### 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.

#### 2015

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

<sup>(1)</sup> 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.

2015

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

(1) Balance at date of resignation.

(2) 664,894 shares issued in lieu of \$100,000 salary.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

(iii) *Performance rights holdings*

The number of performance rights 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. 8,500,000 performance rights were granted during the reporting year as compensation (2014: 7,300,000).

#### 2015

Name	Balance at start of year PERFORMANCE RIGHTS	Granted During the Year as Remuneration	Vested and Converted to Shares during year	Other changes during year PERFORMANCE RIGHTS	Balance at end of year PERFORMANCE RIGHTS
	Number	Number		Number	Number
<b><u>Directors</u></b>					
Mr G Rezos	2,500,000	2,500,000	(2,500,000)	-	2,500,000
Mr C Smith-Gander	-	-	-	-	-
Mr N Clark	3,000,000	3,000,000	(3,000,000)	-	3,000,000
Mr Craig Metz	-	-	-	-	-
Brigadier General Stephen Cheney	-	-	-	-	-
<b>Total Directors</b>	5,500,000	5,500,000	(5,500,000)	-	5,500,000
<b><u>Executives</u></b>					
Mr S Susta <sup>(1)</sup>	800,000	-	-	(800,000)	-
Dr B Brookins	600,000	500,000	(600,000)	-	500,000
Dr D Van Hying	400,000	600,000	(400,000)	-	600,000
<b>Total Executives</b>	1,800,000	1,100,000	(1,000,000)	(800,000)	1,100,000
<b>Total Directors and Executives</b>	7,300,000	6,600,000	(6,500,000)	(800,000)	6,600,000

(1) At date of resignation

End of remuneration report.

## DIRECTORS' REPORT

### ALEXIUM INTERNATIONAL GROUP LIMITED

#### DIRECTORS' MEETINGS

The number of formal Directors' meetings held and number of such formal 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	9	9	1	10
Craig Smith-Gander	9	9	1	10
Nicholas Clark	9	9	1	10
Craig Metz	6	6	1	7
Brigadier General Stephen Cheney	2	2	1	3

#### Dates of Formal Board Meetings and Circulating Resolutions.

Board Meetings	Circular Resolutions
2 July 2014 4 August 2014 5 September 2014 16 December 2014 25 February 2015 1 April 2015 28 April 2015 2 June 2015 24 June 2015	12 June 2015

#### 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**

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#### **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.

#### **INDEMNITY OF AUDITORS**

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

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

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

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

The auditor's independence declaration is included on page 28 of the financial report.

Dated this 30<sup>th</sup> day of September 2015.

Signed in accordance with a resolution of the directors.



**Gavin Rezos**  
Executive Chairman

## **CORPORATE GOVERNANCE STATEMENT**

### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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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 Gavin Rezos Executive Chairman	Not independent due to being a substantial shareholder and employed in an executive capacity.
Mr Nicholas Clark Executive Director and CEO	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.
Mr Craig Metz	Meets all criteria of independent director.
Brigadier General Stephen Cheney	Meets all criteria of independent director.

Currently three Board members are considered to be independent.

## **CORPORATE GOVERNANCE STATEMENT**

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### **ALEXIUM INTERNATIONAL GROUP LIMITED**

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. 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**

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### **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; and
- (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**

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### **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 Executives. The Company does not have any schemes for retirement benefits, other than statutory superannuation.

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

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Alexium International Group Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner - Audit & Assurance

Perth, 30 September 2015

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# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2015

ALEXIUM INTERNATIONAL GROUP LIMITED

		Consolidated Group	
		2015	2014
		\$	As restated \$
	Note		
Revenue	4	59,190	242,465
Cost of sales		(41,296)	(77,924)
<b>Gross Profit</b>		<b>17,894</b>	<b>164,541</b>
Other Income	4	326,446	-
Administrative expenses	5	(4,834,353)	(2,454,800)
Research and development costs		(859,326)	(713,537)
Impairment of intangible assets	12	(225,908)	-
Other expenses		(1,144,348)	(310,861)
Finance costs -			
Gain / (loss) from embedded derivative		(4,674,520)	457,050
Interest and amortisation of cost of raising convertible notes		(399,263)	(497,962)
Finance income	4	29,812	19,042
<b>Loss before tax</b>		<b>(11,763,566)</b>	<b>(3,336,527)</b>
Tax expense		-	-
<b>Loss for the year from continuing operations</b>			
<b>Loss for the year after tax</b>		<b>(11,763,566)</b>	<b>(3,336,527)</b>
Exchange differences on translation of foreign operations		1,009,782	(124,552)
Total comprehensive loss for the year			
Profit for the year attributable to:		(11,763,566)	(3,336,527)
Members of the group	7	-	-
		(11,763,566)	(3,336,527)
Total comprehensive loss for the year		(10,753,784)	(3,461,079)
Loss for the year attributable to members of the group		(11,763,566)	(3,336,527)
Total comprehensive loss for the year attributable to members of the group		(10,753,784)	(3,461,079)
Basic loss per share (cents)	8	(5.78)	(1.88)
Diluted loss per share (cents)	8	(5.78)	(1.88)

**This consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes to the financial statements.**

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**  
**ALEXIUM INTERNATIONAL GROUP LIMITED**

		Consolidated Group		
		2015	2014	2013
			Restated	Restated
Note		\$	\$	\$
<b>Current Assets</b>				
Cash and cash equivalents	20(a)	11,621,603	4,197,460	1,163,231
Trade and other receivables	9	119,277	70,975	22,566
Other assets	10	170,430	103,660	96,404
<b>Total Current Assets</b>		<b>11,911,310</b>	<b>4,372,095</b>	<b>1,282,201</b>
<b>Non-Current Assets</b>				
Other financial assets		7,834	5,402	4,483
Property, plant and equipment	11	366,366	303,074	293,111
Leased assets	11	148,253	40,068	-
Intangible assets	12	184,847	361,544	327,739
<b>Total Non-Current Assets</b>		<b>707,300</b>	<b>710,088</b>	<b>625,333</b>
<b>Total Assets</b>		<b>12,618,610</b>	<b>5,082,183</b>	<b>1,907,534</b>
<b>Current Liabilities</b>				
Trade and other payables	13	638,484	189,680	128,228
Provisions		56,613	18,749	32,986
Convertible notes	15	-	598,828	-
Derivative liability		-	96,450	-
Other - deferred income	14	116,676	63,564	-
<b>Total Current Liabilities</b>		<b>811,773</b>	<b>967,271</b>	<b>161,214</b>
<b>Non-Current Liabilities</b>				
Convertible notes	15	-	748,726	1,208,325
Derivative liability	2(n)	-	321,440	888,220
<b>Total Non-Current Liabilities</b>		<b>-</b>	<b>1,070,166</b>	<b>2,096,545</b>
<b>Total Liabilities</b>		<b>811,773</b>	<b>2,037,437</b>	<b>2,257,759</b>
<b>Net Assets / Liabilities</b>		<b>11,806,837</b>	<b>3,044,746</b>	<b>(350,225)</b>
<b>Equity</b>				
Contributed equity	16	41,363,396	24,805,339	18,082,770
Reserves	18	4,417,082	449,482	440,553
Accumulated losses	19	(33,973,641)	(22,210,075)	(18,873,548)
<b>Total Equity</b>		<b>11,806,837</b>	<b>3,044,746</b>	<b>(350,225)</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**ALEXIUM INTERNATIONAL GROUP LIMITED**

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

Balance at 1 July 2013 (as reported) correction of prior period errors	Contributed equity	Reserves	Accumulated losses	Total
	\$	\$	\$	\$
Balance as reported	18,092,756	514,749	(11,930,131)	6,677,374
Adjustments on correction	(9,986)	(74,196)	(6,943,417)	(7,027,599)
<b>Balance as restated</b>	<b>18,082,770</b>	<b>440,553</b>	<b>(18,873,548)</b>	<b>(350,225)</b>
Loss for the year as restated	-	-	(3,336,527)	(3,336,527)
Foreign currency translation	-	(124,552)	-	(124,552)
Total comprehensive loss for the year	-	(124,552)	(3,336,527)	(3,461,079)
Transactions with owners in their capacity as owners:				
Issued capital	6,883,755	-	-	6,883,755
Capital raising costs	(403,812)	-	-	(403,812)
Share buy back of unmarketable parcels	(12,446)	-	-	(12,446)
Options exercised	126,667	-	-	126,667
Share-based payment	-	133,481	-	133,481
Shares issued in lieu of salary as restated	128,405	-	-	128,405
<b>Balance at 30 June 2014 as restated</b>	<b>24,805,339</b>	<b>449,482</b>	<b>(22,210,075)</b>	<b>3,044,746</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**ALEXIUM INTERNATIONAL GROUP LIMITED**

		<b>Consolidated Group</b>	
		<b>2015</b>	<b>2014</b>
			Restated
	<b>Note</b>	<b>\$</b>	<b>\$</b>
<b>Cash flow from operating activities</b>			
Receipts from customers and other income		400,834	256,056
Payments to suppliers and employees		(4,634,757)	(3,223,846)
Interest received		29,812	19,042
Goods & services tax received from ATO		34,656	60,826
<b>Net cash flows (used in) operating activities</b>	20(b)	<b>(4,169,455)</b>	<b>(2,887,922)</b>
<b>Cash flows from investing activities</b>			
Investments in intangibles		(22,071)	(33,658)
Purchase of property, plant and equipment		(95,999)	(83,079)
Deposits paid		(1,090)	(1,093)
<b>Net cash flows (used in) investing activities</b>		<b>(119,160)</b>	<b>(117,830)</b>
<b>Cash flows provided by financing activities</b>			
Proceeds from issue of ordinary shares		10,100,000	6,719,975
Proceeds from exercise of options		1,822,000	126,667
Payment of capital raising costs		(809,281)	(403,812)
Interest paid		(99,318)	(208,233)
Payment for unmarketable parcel share buy back		-	(12,446)
<b>Net cash flows from financing activities</b>		<b>11,013,401</b>	<b>6,222,151</b>
<b>Net increase in cash and cash equivalents</b>		<b>6,724,786</b>	<b>3,216,399</b>
Cash and cash equivalents at beginning of year		4,197,460	1,163,231
Effect of exchange rate changes on cash and cash equivalents		699,357	(182,170)
<b>Cash and cash equivalents at end of year</b>	20(a)	<b>11,621,603</b>	<b>4,197,460</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015

### 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 30 September 2015 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. The Company is a for-profit entity for the purpose of preparing the financial statements.

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

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

Separate financial statements for the Company as an individual entity are no longer presented as the consequence of a change to the Corporations Act 2001, however, required financial information for the Company as an individual entity is included in Note 25.

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

A number of new or amended standards became applicable for the current reporting period, however, the Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these standards. Information on these new standards which are relevant to the Group is presented below.

#### **AASB 2012-3    *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities***

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014 and has been adopted in this financial report. The adoption of these amendments has not had a material impact on the Group as the amendments merely clarify the existing requirements in AASB 132.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### **AASB 2013-3 Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets**

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets and is applicable to annual reporting periods beginning on or after 1 January 2014. The adoption of these amendments in this financial report has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

### **AASB 2014-1 Amendments to Australian Accounting Standards (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles)**

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity)
- amend AASB 8 Operating Segments to explicitly require the disclosure of judgements made by management in applying the aggregation criteria

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014. The adoption of these amendments has not had a material impact on the Group as they are largely of the nature of clarification of existing requirements.

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

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

#### **AASB 9 Financial Instruments**

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

The effective date is for annual reporting periods beginning on or after 1 January 2018.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

### **AASB 15 Revenue from Contracts with Customers**

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

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

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

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

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

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

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

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

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the transactions and balances recognised in the financial statements.

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

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

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

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

The amendments address a current inconsistency between AASB 10 Consolidated Financial Statements and AASB 128 Investments in Associates and Joint Ventures (2011). The amendments clarify that, on a sale or contribution of assets to a joint venture or associate or on a loss of control when joint control or

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

significant influence is retained in a transaction involving an associate or a joint venture, any gain or loss recognised will depend on whether the assets or subsidiary constitute a business, as defined in AASB 3 Business Combinations. Full gain or loss is recognised when the assets or subsidiary constitute a business, whereas gain or loss attributable to other investors' interests is recognised when the assets or subsidiary do not constitute a business.

The effective date is for annual reporting periods beginning on or after 1 January 2016.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

### (d) Group Accounting Policies

#### Interests in Joint Arrangements

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

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

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

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

#### Fair Value of Assets and Liabilities

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (ie unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (ie the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (ie the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

***Valuation techniques***

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

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

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

***Fair value hierarchy***

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

**Level 1**

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

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

**Level 2**

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

**Level 3**

Measurements based on unobservable inputs for the asset or liability.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

The Group would change the categorisation within the fair value hierarchy only in the following circumstances:

- if a market that was previously considered active (Level 1) became inactive (Level 2 or Level 3) or vice versa; or

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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- if significant inputs that were previously unobservable (Level 3) became observable (Level 2) or vice versa.

When a change in the categorisation occurs, the Group recognises transfers between levels of the fair value hierarchy (i.e. transfers into and out of each level of the fair value hierarchy) on the date the event or change in circumstances occurred.

### **(e) Principles of Consolidation**

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent, Alexium International Group Limited and all of the subsidiaries. Subsidiaries are entities the parent controls. The parent controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 22.

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

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

### **(f) Foreign currency translation**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

sheet date and the statements of comprehensive income are translated at the weighted average exchange rates for the year.

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

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

### **(g) Property, plant and equipment**

#### **(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**

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

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

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

#### **(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 profit or loss as an expense as incurred.

#### **(iv) Depreciation**

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

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

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

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

**(h) Intangible assets**

**(i) Acquired intangible assets**

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

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

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

**(ii) Subsequent expenditure**

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

**(iii) 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 profit or loss when the asset is derecognised.

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

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

**(i) Impairment of assets**

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

### **(j) Trade and other receivables**

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

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

### **(k) Determination and presentation of operating segments**

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

The 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.

### **(l) Cash and cash equivalents**

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

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

### **(m) Financial instruments**

#### *Recognition, initial measurement and derecognition*

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

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

**(n) Embedded Derivative**

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

The embedded derivative is separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The embedded derivative is measured at fair value with changes in value being recorded in profit or loss.

**(o) Trade and other payables**

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 60 days of recognition.

**(p) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income, net of any reimbursement.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**(q) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

**(r) Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### *Rendering of services*

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

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

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

### *Grant revenue*

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

### *Deferred income*

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

### *Interest and dividends*

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

## **(s) Income tax and other taxes**

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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.

### **(t) Earnings per share**

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

### **(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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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### (ii) *Long Term Employee Benefits*

The Company's liabilities for annual leave and long service leave are included in other long term benefits as they are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service. They are measured at the present value of the expected future payments to be made to employees. The expected future payments incorporate anticipated future wage and salary levels, experience of employee departures and periods of service, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds (2014: government bonds) that have maturity dates that approximate the timing of the estimated future cash outflows. Any re-measurements arising from experience adjustments and changes in assumptions are recognised in profit or loss in the periods in which the changes occur.

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

### (iii) *Short-term employee benefits*

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

### (iv) *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.

## 3. PRIOR PERIOD ADJUSTMENTS

The Company has made prior period adjustments to its financial statements for a transaction originally recognized under the guidance for business combinations as a reverse acquisition that was recognised when the Company obtained control of Alexium Limited and Alexium Marketing Services Limited on 26 February 2010. The Company has adjusted previously stated period balances to recognise the transaction in accordance with AASB 2 because the Company did not include a business at that time.

In addition, the Company has made prior period adjustments to its financial statements related to certain conversion options embedded in the convertible debt. The relevant details of the convertible debt has been disclosed in Note 16 of the financial statements. The Company previously treated the conversion options as an equity financial instrument. The adjustment involved recognition of the embedded options as derivative financial liabilities.

The Company also made prior period adjustments to its financial statements related to certain additions to the cost basis of intellectual property. These costs were originally capitalized over the useful life of the asset and should have been expensed in the period incurred. The adjustment involved recognizing the transactions in accordance with AASB 138.

The prior period adjustments also includes adjustments made to equity accounts and employee benefits expense for valuation adjustments made on shares issued in lieu of salary.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

The accounting impact of the prior period adjustments are outlined as follows:

	30 June 2014		
<b>Statement of Financial Position (Extract)</b>	<b>Previous Amount \$ DR / (CR)</b>	<b>Adjustment \$ DR / (CR)</b>	<b>Restated Amount \$ DR / (CR)</b>
Intangible assets	9,052,124	(8,690,580)	361,544
Deferred tax liability	(2,580,008)	2,580,008	-
Convertible notes	(1,566,220)	218,666	(1,347,554)
Derivative liability	-	(417,890)	(417,890)
Issued capital	(24,773,640)	(31,699)	(24,805,339)
Accumulated losses	15,942,775	6,267,300	22,210,075
Reserve	(523,678)	74,196	(449,482)
<b>Total equity / net assets</b>	<b>9,354,543</b>	<b>(6,309,797)</b>	<b>3,044,746</b>

	30 June 2014		
<b>Statement of Profit or Loss and Other Comprehensive Income (Extract)</b>	<b>Previous Amount \$ DR / (CR)</b>	<b>Adjustment \$ DR / (CR)</b>	<b>Restated Amount \$ DR / (CR)</b>
Gain (loss) from embedded derivative	-	(457,050)	(457,050)
Depreciation and amortisation expense	787,329	(680,058)	107,271
Employee benefits expense	1,362,274	28,405	1,390,679
Interest expense	287,915	210,047	497,962
Loss before income tax	4,216,329	(879,802)	3,336,527
Income tax benefit	(203,685)	203,685	-
Loss for the year	4,012,644	(676,117)	3,336,527
<b>Total comprehensive income for the year</b>	<b>4,137,196</b>	<b>(676,117)</b>	<b>3,461,079</b>

	30 June 2014		
<b>Statement of Cash Flows (Extract)</b>	<b>Previous Amount \$ DR / (CR)</b>	<b>Adjustment \$ DR / (CR)</b>	<b>Restated Amount \$ DR / (CR)</b>
Payments to suppliers and employees	(3,205,902)	(17,944)	(3,223,846)
Investments in intangibles	(51,602)	17,944	(33,658)

The net effect on cash flows for the period was nil.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	30 June 2013		
	Previous Amount \$ DR / (CR)	Adjustment \$ DR / (CR)	Restated Amount \$ DR / (CR)
<b>Statement of Financial Position (Extract)</b>			
Intangible assets	9,679,524	(9,351,785)	327,739
Deferred tax liability	2,783,693	(2,783,693)	-
Convertible notes	1,637,038	(428,713)	1,208,325
Derivative liability	-	888,220	888,220
Issued capital	18,092,756	(9,986)	18,082,770
Accumulated losses	(11,930,131)	(6,943,417)	(18,873,548)
Reserve	514,749	(74,196)	440,553
Total equity/ net assets	6,677,374	(7,027,599)	(350,225)

**4. REVENUE**

	Consolidated Group	
	2015	2014
	\$	\$
Sales	59,190	242,465
Other income	326,446	-
	<u>385,636</u>	<u>242,465</u>
Interest received	<u>29,812</u>	<u>19,042</u>

*Grant Revenue*

During the period the Group received \$319,642 (2014: Nil) in grant revenue from the South Carolina Research Authority (SCRA). There were no other forms of government assistance from which the Group has directly benefited.

**5. ADMINISTRATIVE EXPENSES**

	Consolidated Group	
	2015	2014
	\$	\$
Depreciation -		
Property, plant and equipment	102,647	66,284
Leased assets	22,121	3,761
Total Depreciation	<u>124,768</u>	<u>70,045</u>
Amortisation of Intangibles	9,697	37,226
Superannuation Guarantee Contribution paid	9,871	11,273
Employee Benefits Expense	2,978,954	1,612,887
Professional fees	896,345	258,934

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**6. 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:

		<b>Consolidated Group</b>	
		<b>2015</b>	<b>2014</b>
		<b>\$</b>	<b>\$</b>
(a)	Stantons International (Australia)		
	Audit and review of financial reports	42,171	44,191
(b)	Grant Thornton Audit Pty Ltd	25,000	-
(c)	Grant Thornton LLP	77,964	
(d)	Elliott Davis (USA)	-	19,717
		<u>145,135</u>	<u>63,908</u>

**7. TAXATION**

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

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Prima facie tax on operating loss before income tax at 30%	(3,529,070)	(1,000,958)
Tax effect of permanent and temporary differences not booked	220,884	293,108
Tax losses not brought to account	3,308,186	707,850
Income tax benefit attributable to reversal of deferred tax liability on intangible assets	-	-

**(b) Deferred tax assets**

Deferred tax assets at 30 June not brought to account:

Employee benefits	2,004	5,625
Other	418,508	-
Income tax losses	<u>7,550,899</u>	<u>3,206,692</u>
	<u>7,971,411</u>	<u>3,212,317</u>

No income tax is payable by the Group. The Directors have considered it prudent not to bring to account the future income tax benefit of income tax losses until it is probable of deriving assessable income of a nature and amount to enable such benefit to be realised.

The Group has estimated unrecouped income tax losses of \$17,782,641 (2014: \$11,112,066) 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**8. 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.

	<b>Consolidated 2015 Number</b>	<b>Consolidated 2014 Number</b>
Weighted average number of ordinary shares used in the calculation of basic earnings per share	203,599,773	177,533,628
	\$	\$
Basic loss	(11,763,566)	(3,336,527)

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**

	<b>Consolidated 2015 Number of securities</b>	<b>Consolidated 2014 Number of securities</b>
Options over ordinary shares	29,825,000	19,415,000
Convertible Notes	-	16,475,000
Performance Rights	8,500,000	8,600,000
	38,325,000	44,490,000

The group has incurred a loss for the year. The diluted earnings per share is therefore disclosed as the same as the basic earnings per share.

**9. TRADE AND OTHER RECEIVABLES**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
<b>Current</b>		
Trade debtors	113,383	64,738
Other receivables	5,894	6,237
	119,277	70,975

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**10. OTHER ASSETS**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Prepayments	170,430	103,660

**11. PROPERTY, PLANT & EQUIPMENT**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Furniture and Equipment</b>		
Cost	728,879	519,198
Accumulated depreciation	(362,513)	(216,124)
Net book value	366,366	303,074
<b>Leased assets</b>		
Cost	436,046	255,591
Accumulated depreciation	(287,793)	(215,523)
Net book value	148,253	40,068
<b>Total property, plant and equipment</b>	<b>514,619</b>	<b>343,142</b>

**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.

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Furniture &amp; equipment</b>		
Balance at the beginning of year	303,074	293,111
Foreign exchange movements	62,784	(6,832)
Additions at cost	103,155	83,079
Amortisation / Depreciation expense	(102,647)	(66,284)
	366,366	303,074

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Leased assets</b>		
Balance at the beginning of year	40,068	-
Foreign exchange movements	9,324	(1,305)
Additions at cost	120,982	45,134
Amortisation / Depreciation expense	(22,121)	(3,761)
	<u>148,253</u>	<u>40,068</u>

**12. INTANGIBLE ASSETS**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Patents and intellectual property</b>		
Cost	313,408	496,528
Accumulated amortisation	(128,561)	(134,984)
Net carrying value	<u>184,847</u>	<u>361,544</u>

**Movements in carrying amounts**

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

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at the beginning of year	361,544	327,739
Additions at cost	22,071	33,658
Impairment	(225,908)	-
Foreign exchange movements	36,837	37,413
Amortisation expense	(9,697)	(37,266)
	<u>184,847</u>	<u>361,544</u>

Intangible assets have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the consolidated statement of profit or loss and other comprehensive income.

The ultimate recoupment of costs carried forward for intellectual property is dependent on the successful development and commercial exploitation of the Group's technology. In accordance with Note 2(h(iii)) on significant accounting policies, amortisation will be calculated on a straight-line basis over the average useful life of the patents being 17 years.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

*Impairment*

During the year ended 30 June 2015 the Company determined that certain patents needed to be disposed of and impaired (see above) before the previously expected date. This determination was made on the basis that the company is no longer pursuing the markets for which these patents were initially developed due to changes in the regulatory environment.

**13. TRADE AND OTHER PAYABLES**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Current</b>		
Trade creditors	155,807	71,883
Other creditors	482,677	117,797
	<u>638,484</u>	<u>189,680</u>

Trade and other payable amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days or recognition.

**14. OTHER LIABILITIES – DEFERRED INCOME**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Current - deferred income	<u>116,676</u>	<u>63,564</u>

During the period ended 30 June 2014 the Company entered into licensing agreements with third-parties to market and sell the Company's products for a specified period of time. The license fees were received at the beginning of the license period and amortized ratably over the life of the agreement. The deferred income is in respect of product license fees covering future periods.

**15. CONVERTIBLE NOTES**

In September 2012, the Company placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. In April 2013 the Company placed a total of 11 million convertible notes with a face value of 10 cents per note to raise AUD \$1.1 million (before costs) to Sophisticated and Professional Investors. During the year 7,610,267 shares (2014: 550,000) were issued at a price of \$0.08 each on conversion of 6,430,000 (2014: 550,000) A series convertible notes and 10,045,000 shares (2014: 955,000) were issued at a price of \$0.10 each on conversion of 10,045,000 (2014: 955,000) B series convertible notes.

The movement in number of convertible notes is given hereunder:

	<b>Balance at beginning of the year</b>	<b>Issued during the Year</b>	<b>Converted to Equity during the Year</b>	<b>Balance at the end of the year</b>
A Series Convertible Notes	6,430,000	-	(6,430,000)	-
B Series Convertible Notes	10,045,000	-	(10,045,000)	-

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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	30 June 2015			30 June 2014		
	A Series \$	B Series \$	Total \$	A Series \$	B Series \$	Total \$
Balance at the beginning of the period	598,828	748,727	1,347,555	462,672	745,653	1,208,325
Unwinding of finance costs	44,172	255,773	299,945	191,156	98,573	289,729
Conversion during the year	(643,000)	(1,004,500)	(1,647,500)	(55,000)	(95,500)	(150,500)
Balance at the end of the year	-	-	-	598,828	748,726	1,347,554

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

**Convertible Notes – A Series**

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

**Convertible Notes – B Series**

- A maturity date of 30 March 2016.
- Coupon rate of 12% per annum with interest paid quarterly in arrears.
- Convertible notes are unlisted and unsecured and are convertible to fully paid ordinary shares.
- Conversion price is lesser of:

\$0.10 per share  
OR;

87.5% of the previous 30 day volume weighted average price for the 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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
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**Embedded Derivative Financial Instrument**

Options embedded in Convertible Notes were as follows:

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>AUD</b>	<b>AUD</b>
Opening balance	417,890	888,220
Movement in fair value	4,674,520	(457,050)
Options exercised in period	(5,092,410)	(13,280)
Closing balance	-	417,890

The cumulative change in the fair value of the financial liability is \$4,529,420.

The convertibles notes issued by the Group contain an embedded option to convert the debt to ordinary shares. The embedded options have been separated from the host contract and accounted for as a derivative as the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract. The embedded derivatives are measured at fair value with changes in value being recorded in profit or loss.

Embedded options have been valued using a Black-Scholes pricing model which approximates the results that would have been achieved by using a binomial lattice Monte Carlo simulation.

**16. CONTRIBUTED EQUITY**

**(a) Issued Capital**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
261,350,490 (2014: 202,025,435) Ordinary shares fully paid	41,363,396	24,805,339
Total issued capital	41,363,396	24,805,339

**(b) Movements in share capital**

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Movement in ordinary share capital</b>		
Balance at beginning of year	24,805,339	18,092,756
Series A Convertible Notes	643,000	55,000
Series B Convertible Notes	1,004,500	95,500
Transfer of conversion note reserve to equity	74,196	
Options converted to shares	1,759,502	126,667
Capital raising	10,162,500	5,220,000
Costs of capital raising	(2,449,600)	(403,812)
Capital raising costs include \$809,203 paid and \$1,640,317 to recognise the value of the free attaching options issued.		
Share purchase plan	-	1,499,975
Unmarketable parcel buy back	-	(12,446)
Derivative	5,018,214	3,294
Shares issued in lieu of salary (note 17a)	345,745	128,405
Totals	41,363,396	24,805,339

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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<b>Movement in the number of ordinary shares</b>	<b>2015</b>	<b>2014</b>
Balance of shares at beginning of year	202,025,435	149,197,632
Series A Convertible Notes	7,610,267	550,000
Series B Convertible Notes	10,045,000	955,000
Options converted to shares	8,390,000	938,337
Capital raising	24,250,000	39,700,000
Share purchase plan	-	9,999,832
Unmarketable parcel buy back	-	(93,576)
Conversion of performance rights	7,700,000	-
Shares issued in lieu of salary (note 17a)	1,329,788	778,210
<b>Totals</b>	<b>261,350,490</b>	<b>202,025,435</b>

**(c) Movements in Performance Rights**

	<b>2015</b>	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<b>Number</b>	<b>\$</b>	<b>Number</b>	<b>\$</b>
Balance of performance rights at beginning of year	8,600,000	198,660	-	-
Rights forfeited during year	(900,000)	(20,790)		
Rights converted to shares during year	(7,700,000)	(177,870)		
Rights issued, net of costs**	8,500,000	464,100	8,600,000	198,660
Balance of performance rights at end of year	8,500,000	464,100	8,600,000	198,660

**November 2014 Performance Rights**

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

As announced on the 13th November 2014, Alexium issued 8,500,000 performance rights; 5,500,000 issued to Directors and 3,000,000 issued to employees. The performance rights were issued for nil consideration. In order to vest, milestone 1 and any 2 of the other milestones will need to be achieved by 30 June 2016

**(i) . Share Price Appreciation**

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

**(ii) Revenue of not less than \$5m for the Period**

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

**(iii) Achieving Product Sales on 3 Products**

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

**(iv) Entering into Joint Ventures**

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

**(v) Product Sales for Chem/Bio Protection**

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

**(vi) United States Quotation**

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### (vii) US Department of Defense Contracts

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

### November 2013 Performance Rights

*\*\* The underlying value of an Alexium share trading on ASX on 25 November 2013 was \$0.165, this has been used as an underlying value of a performance right in Alexium. The 8,600,000 discounted performance rights in Alexium issued to Directors and employees has an underlying value of \$198,660 based on the closing share price on 25 November 2013 of \$0.165.*

*As announced on the 25th November 2013, Alexium issued 8,600,000 performance rights; 5,500,000 issued to Directors and 3,100,000 issued to employees. The performance rights were issued for nil consideration.*

*In order to vest, milestone 1 and any of the other milestones will need to be achieved by 31 December 2014.*

### (i) Share Price Appreciation

*The price of Shares as traded on ASX must exceed \$0.186325 over a 10 day volume weighted average price during the Period, being a 45% premium to the average closing price of Shares on ASX in the 10 trading days immediately prior to the date of the 2013 AGM of \$0.1285.*

### (ii) Revenue of not less than \$3.0m for the Period

*The Company must achieve at least \$3.0m in revenues during the Period.*

### (iii) Achieving Product Sales on 3 Products

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

### (iv) Entering into an Additional Licences

*The Company must enter into one or more additional licences on its FR products in addition to its current licence to Duro LLC with large national companies for licenses geographically restricted to national or regional areas or multinational companies for multi-jurisdictional licences during the Period.*

### (v) Entering into Joint Ventures

*The Company must enter into a new joint venture for the development of its products outside textile finishing, with a recognised leader in the field, the subject of the joint venture, during the Period.*

### (vi) Product Sales for Chem/Bio Protection

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

### (vii) NASDAQ Quotation

*The Company's shares, American depositary receipts or the shares of the entity resulting from a merger of the Company and its US subsidiary being quoted on the NASDAQ Securities Exchange or equivalent US Securities Exchange for technology companies of similar standing, during the Period.*

### (viii) US Department of Defense Contracts

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

## (d) Share options issued

At the year end there were 11,730,000 free attaching options outstanding (2014: NIL) and 18,095,000 share based payment options outstanding (2014: 19,415,000). Refer to Note 17(e) for details of the share based payment options outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**(e) Movements in share options**

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Reinstated during the year	Exercised during the year Number	Forfeited during the year Number	Balance at end of year Number
<b>2015 year</b>									
Unlisted options	30/07/10	\$0.30	31/12/14	2,500,000	-		(2,500,000)	-	-
Unlisted options	21/03/11	\$0.15	31/12/15	-	-	750,000	(750,000)	-	-
Unlisted options	21/03/11	\$0.15	31/12/15	6,375,000	-		(2,020,000)	-	4,355,000
Unlisted options	21/03/11	\$0.20	31/12/15	-	-	750,000	(750,000)	-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-		-	-	1,000,000
Unlisted options	22/06/11	\$0.10	21/06/16	540,000	-		-	-	540,000
Unlisted options	21/09/11	\$0.15	31/12/15	5,000,000	-		-	-	5,000,000
Unlisted options	10/11/14	\$0.198	9/11/17	-	750,000	-	-	-	750,000
Unlisted options	1/9/14	\$0.18	31/8/17	-	750,000	-	(300,000)	-	450,000
Unlisted options	13/5/15	\$0.70	31/12/17	-	1,000,000	-	-	-	1,000,000
Unlisted options	13/5/15	\$0.80	31/12/17	-	1,000,000	-	-	-	1,000,000
Unlisted options	20/5/15	\$0.13	31/8/17	-	1,500,000	-	-	-	1,500,000
Unlisted options	30/11/12	\$0.074	31/12/16	4,000,000	-		(750,000)	(750,000)	2,500,000
Unlisted options	10/11/14	\$0.25	9/11/16	-	5,500,000	-	(1,570,000)	-	3,930,000
Unlisted options	6/5/15	\$0.75	7/5/18	-	7,800,000	-	-	-	7,800,000
				19,415,000	18,300,000	1,500,000	(8,640,000)	(750,000)	29,825,000

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Lapsed/ Expired during the year Number	Balance at end of year Number
<b>2014 year</b>								
Unlisted options	30/07/10	\$0.30	31/12/14	2,500,000	-	-	-	2,500,000
Unlisted options	21/03/11	\$0.15	31/12/15	750,000	-	-	(750,000)	-
Unlisted options	21/03/11	\$0.15	31/12/15	6,750,000	-	(375,000)	-	6,375,000
Unlisted options	21/03/11	\$0.20	31/12/15	750,000	-	-	(750,000)	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-	-	-	1,000,000
Unlisted options	22/06/11	\$0.10	21/06/16	540,000	-	-	-	540,000
Unlisted options	21/09/11	\$0.15	31/12/15	5,000,000	-	-	-	5,000,000
Unlisted options	22/02/12	\$0.125	22/08/13	5,000,000	-	(563,337)	(4,436,663)	-
Unlisted options	30/11/12	\$0.074	31/12/16	4,000,000	-	-	-	4,000,000
				26,290,000	-	(938,337)	(5,936,663)	19,415,000

Nil options expired during the current year (2014: 4,436,663).

750,000 options were forfeited during the current year due to resignation of a staff member (2014: 1,500,000).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

7,070,000 share based payment options were exercised during the current year (2014: 375,000) and 1,570,000 free attaching options were exercised (2014: NIL).  
 563,337 options were exercised during the current year (2013: Nil).  
 All options were exercised for an equivalent number of ordinary shares.

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.

**17. SHARE-BASED PAYMENTS**

**(a) Shares**

	<b>2015</b>	<b>2015</b>	<b>2015</b>
	<b>Number</b>	<b>Value per Share</b>	
		<b>\$</b>	<b>\$</b>
Share-based payments issued during the year for services received	-	-	-
Share-based payments issued during the year for payment in lieu of salary	1,329,788	0.26	345,745
Total	1,329,788		345,745

  

	<b>2014</b>	<b>2014</b>	<b>2014</b>
	<b>Number</b>	<b>Value per Share</b>	
		<b>\$</b>	<b>\$</b>
Share-based payments issued during the year for services received	-	-	-
Share-based payments issued during the year for payment in lieu of salary	778,210	0.165	128,405
Total	778,210		128,405

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**(b) Performance rights**

	2015 Number	2015 Value per Share \$	2015 \$
Share-based payments issued during the year	8,500,000	0.0546	464,100
Total	8,500,000		464,100

The Company agreed and approved at the 10 November 2014 AGM to issue a total of 8,500,000 performance rights to Directors and employees. The terms and conditions of the performance rights are detailed in the Notice of General Meeting dated 10 November 2014. The performance rights were issued for nil consideration.

The underlying value of an Alexium share trading on ASX on 10 November 2014 was \$0.26, this has been used as an underlying value of a performance right in Alexium. The 8,500,000 discounted performance rights in Alexium issued to Directors and employees has an underlying value of \$464,100 based on the closing share price on 10 November 2014 of \$0.26 and with a probability discount of 70% and an unlisted status discount of 30% has been applied. Only \$185,640 was expensed during the year as the vesting period ends 30 June 2016. There were 8,600,000 share based payment performance rights issued in 2014. \$70,899 was expensed for the performance rights issued 25 November 2013 as the vesting period for these rights ended 31 December 2014.

	2014 Number	2014 Value per Share \$	2014 \$
Share-based payments issued during the year	8,600,000	0.0231	198,660
Total	8,600,000		198,660

The Company agreed and approved at the 25 November 2013 AGM to issue a total of 8,600,000 performance rights to Directors and employees. The terms and conditions of the performance rights are detailed in the Notice of General Meeting dated 25 November 2013. The performance rights were issued for nil consideration.

The underlying value of an Alexium share trading on ASX on 25 November 2013 was \$0.165, this has been used as an underlying value of a performance right in Alexium. The 8,600,000 discounted performance rights in Alexium issued to Directors and employees has an underlying value of \$198,660 based on the closing share price on 25 November 2013 of \$0.165 and with a probability discount of 80% and an unlisted status discount of 30% has been applied. Only \$106,971 was expensed during the year as the vesting period ends 31 December 2014. There were no share based payment performance rights issued in 2013.

**(c) Options**

*Options for services rendered*

During the reporting period, 4,250,000 (2014: Nil) options were expensed for services rendered. 750,000 (2014: 1,500,000) options were forfeited.

Share based payments for options expensed during the year totalled \$1,060,962 (2014: \$26,510). These options vest immediately.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 30 JUNE 2015

The Company also made share based payments to professional services providers. The Company could not readily determine a fair value of the services due to the fact that the fair value of services performed were unknown. We determined the fair value based on a Black-Scholes pricing model. The total value assigned to equity and expensed as a result of these 1,500,000 (2014: Nil) shares was \$980,994 (2014: Nil).

### (d) Shares, options and performance rights expensed during year

	2015	2014
	\$	\$
Share based payments in shares 16 (a)	345,745	128,405
Share based payments in performance rights 16 (b)	256,539	106,971
Share based payments in options 16 (c)	1,060,962	26,510
Totals	1,663,246	261,886

### Share Based Payment Options Issued

	Grant date	Exercise Price	Expiry date	Balance at beginning of year	Granted during the year	Re-Instated during the year	Exercised during the year	Other changes during the year (Forfeited)	Balance at end of year	Vested and exercisable at the end of period
				Number	Number		Number	Number	Number	Number
<b>2015 year</b>										
Unlisted options	30/07/10	\$0.30	31/12/14	2,500,000	-		(2,500,000)	-	-	-
Unlisted options	21/03/11	\$0.15	31/12/15	6,375,000	-	750,000	(2,770,000)		4,355,000	4,355,000
Unlisted options	21/03/11	\$0.20	31/12/15	-	-	750,000	(750,000)		-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-		-	-	1,000,000	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	5,000,000
Unlisted options	30/11/12	\$0.074	31/12/16	4,000,000	-		(750,000)	(750,000)	2,500,000	2,500,000
Unlisted options	10/11/14	\$0.198	9/11/17	-	750,000	-	-	-	750,000	750,000
Unlisted options	1/9/14	\$0.18	31/8/17	-	750,000	-	(300,000)	-	450,000	450,000
Unlisted options	13/5/15	\$0.70	31/12/17	-	1,000,000	-	-	-	1,000,000	1,000,000
Unlisted options	13/5/15	\$0.80	31/12/17	-	1,000,000	-	-	-	1,000,000	1,000,000
Unlisted options	20/5/15	\$0.13	31/8/17	-	1,500,000	-	-	-	1,500,000	1,500,000
				19,415,000	5,000,000	1,500,000	(7,070,000)	(750,000)	18,095,000	18,095,000
Weighted average exercise price (\$)				0.16	0.40	0.18	0.20	0.074	0.36	0.36

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

	Grant date	Exercise Price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Other changes during the year Number	Balance at end of year Number	Vested and exercisable at the end of period Number
<b>2014 year</b>									
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	-	(375,000)	(750,000)	6,375,000	6,375,000
Unlisted options	21/03/11	\$0.20	31/12/15	750,000	-	-	(750,000)	-	-
Unlisted options	21/03/11	\$0.25	31/12/15	1,000,000	-	-	-	1,000,000	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	5,000,000
Unlisted options	30/11/12	\$0.074	31/12/16	2,000,000	-	-	-	4,000,000	2,000,000
				21,290,000	-	(375,000)	(1,500,000)	19,415,000	17,415,000
Weighted average exercise price (\$)				0.16		0.15	0.175	0.16	0.17

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

7,070,000 share based payment options were exercised during the current year (2014: 375,000).

750,000 options were forfeited during the current year due to resignation of a staff member (2014: 1,500,000).

The weighted average remaining contractual life of share options outstanding at the end of the financial year was 2.66 years (2014: 1.60 years), and the exercise prices range from 7.4 cents to 80 cents. (2014: 7.4 cents to 30 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. No options were issued in 2014.

Issued 2015 Expiry date	OPTION SERIESOPTION SERIESOPTION SERIESOPTION SERIESOPTION SERIES				
	31/8/17	31/12/17	31/12/17	31/8/17	9/11/17
Dividend yield (%)	-	-	-	-	-
Expected volatility (%)	41.4	41.4	41.4	43.7	42.5
Risk-free interest rate (%)	2.09	2.14	2.14	2.66	2.57
Expected life of options (years)	2.28	2.64	2.64	3.0	3.0
Underlying share price (\$)	.59	.595	.595	.155	.26
Option exercise price (\$)	.13	.70	.80	.18	.198
Value of Option (\$)	.466	.134	.108	.042	.108

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**18. RESERVES**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Option premium reserve	3,304,317	603,038
Performance Rights reserve	363,510	106,971
Foreign currency translation reserve	749,255	(260,527)
Balance at end of year	<u>4,417,082</u>	<u>449,482</u>
Balance at end of year	<u>-</u>	<u>74,196</u>

***Option premium reserve***

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

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	603,038	576,528
Share-based payment expense (Note 17(c))	1,060,962	26,510
Stock Warrant	1,640,317	-
Balance at end of year	<u>3,304,317</u>	<u>603,038</u>

***Performance rights reserve***

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	106,971	-
Performance rights expense	256,539	106,971
Balance at end of year	<u>363,510</u>	<u>106,971</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.

	<b>Consolidated Group</b>	
	<b>2014</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	(260,527)	(135,975)
Foreign currency translation differences arising during the year	1,009,782	(124,552)
Balance at end of year	<u>749,255</u>	<u>(260,527)</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**19. ACCUMULATED LOSSES**

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Balance at beginning of year	(22,210,075)	(18,873,548)
Transfer from share capital to accumulated losses	-	-
Net loss attributable for the year	(11,763,566)	(3,336,527)
Balance at end of year	<u>(33,973,641)</u>	<u>(22,210,075)</u>

**20. 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:

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Cash on hand	<u>11,621,603</u>	<u>4,197,460</u>

Cash at bank attracts floating interest at current market rates

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

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Operating loss after income tax	(11,763,566)	(3,336,527)
<b>Non-cash items</b>		
Depreciation and amortisation of non-current assets	134,465	107,271
Share-based payment	1,663,246	261,886
Unrealised foreign exchange (gains) / losses	1,634	31,840
<b>Changes in assets and liabilities net of effect of purchase of subsidiaries</b>		
(Increase)/Decrease in trade and other receivables	(48,302)	(48,409)
(Increase)/Decrease in other current assets	(66,770)	(7,256)
Increase / (Decrease) in payables	<u>448,804</u>	<u>61,452</u>
Net cash (used in) operating activities	<u>(4,169,455)</u>	<u>(2,887,922)</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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

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.

## 21. SEGMENT REPORTING

For management purposes, the Group is organised into one main operating segment which involves the development of a patented technology known as "Reactive Surface Technology" (RST). Alexium is the exclusive licensee of this particular patent and has applied for additional patents in its own capacity around the world. All of the Group's activities are interrelated and discrete financial information is reported to the Board (Chief Operating Decision Maker) as a single segment. Accordingly, all significant operating decisions are based upon analysis of the Group as one segment. The financial results from this segment are equivalent to the financial statements of the Group as a whole.

Geographic information of revenue and non-current assets excluding financial instruments are as follows:

	Australia	US	Cyprus	Total
<b>2015</b>				
Sales Revenue	-	59,190	-	59,190
Property, Plant and Equipment	6,704	441,887	66,028	514,619
Intangible assets	-	-	184,847	184,847
<b>2014</b>				
Sales Revenue	-	242,465	-	242,465
Property, Plant and Equipment	7,722	272,774	62,646	343,142
Intangible assets	-	-	361,544	361,544

## 22. INVESTMENTS IN CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Percentage Owned (ordinary shares)	
		2015 %	2014 %
<b>Parent Entity</b>			
Alexium International Group Limited	Australia		
<b>Subsidiaries of Alexium International Group Limited</b>			
Alexium Limited	Cyprus	100	100
Alexium Inc	United States of America	100	100

The parent entity has an interest free unsecured loan with Alexium Inc amounting to \$22,235,265 (2014: \$9,081,153).

The parent entity has an interest free unsecured loan with Alexium Ltd amounting to \$470,874 (2014: \$413,831).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2015**

**23. 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 Nicholas Clark
- Mr Craig Metz (appointed 1 December 2014)
- Brigadier General Stephen Cheney (appointed 13 April 2015)

The Company Secretary is Ms Kim Lucraft.

Other key management personnel during the financial year were:

- Mr Stefan Susta – VP Sales and Marketing (resigned 31 July 2014)
- Dr Bob Brookins – Vice President of Research and Development
- Dr Dirk Van Hyning - President

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

Detailed remuneration disclosures are provided in the Remuneration report on pages 10 to 21.

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Short-term benefits	969,028	904,081
Post employment benefits	2,627	3,527
Termination benefits	-	-
Share-based payments	491,124	217,300
	<u>1,462,779</u>	<u>1,124,908</u>

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

**(a) Viaticus Capital Pty Ltd.**

During the period the following was paid or payable to Viaticus Capital Pty Ltd, a related party of Gavin Rezos, the Company's Executive Chairman:

- (i) Nil (2014:\$11,153) for reimbursement of salary and wages in relation to administration and bookkeeping personnel provided by Viaticus Capital of which G Rezos is a director.
- (ii) \$226,831 (2014: \$133,401) to reimburse sums paid by Viaticus on behalf of Alexium for travel and relocation expenses, administration services and equipment purchase.
- (iii) Nil (2014: \$36,384) for office rent.

**(b) Nelson Mullins Riley & Scarborough, LLP**

During the period the following was paid or payable to Nelson Mullins Riley & Scarborough, LLP, a related party of Craig Metz, a Non-Executive Director of the Company:

- (i) \$97,531 US (2014:\$28,815 US) for professional services fees related to providing legal representation and consulting services.
- (ii) \$114,000 US (2014:\$36,000 US) for services fees related to lobbying and government relations.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**(c) Alexium Government Solutions LLC ("AGS")**

During the period the Company had transactions with AGS in which Alexium holds an ownership interest. As its impact on the consolidated financial statements is nominal, and the AGS financial activity in total is immaterial, this company is not consolidated for financial reporting purposes. Transactions consisted of operating expenses for tax preparation and quarterly payroll tax report (nil payroll) preparation.

**24. 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:

**2015**

	<b>Weighted Average Effective Interest Rate</b>	<b>Variable Interest Rate</b>	<b>Fixed Maturity Dates Less than 1 Year</b>	<b>Fixed Maturity Dates 1- 5 Years</b>	<b>Fixed Maturity Dates 5+ years</b>	<b>Non Interest Bearing</b>	<b>Total</b>
	<b>%</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>							
Cash and cash equivalents	.42	10,050,660	-	-	-	1,570,943	11,621,603
Trade and other receivables/other financial assets	-	-	-	-	-	119,277	119,277
		<u>10,050,660</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,690,220</u>	<u>11,740,880</u>
<b>Financial Liabilities</b>							
Trade and other payables	-	-	-	-	-	638,484	638,484
Convertible Notes	-	-	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>638,484</u>	<u>638,484</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

2014

	Weighted Average Effective Interest Rate	Variable Interest Rate	Fixed Maturity Dates Less than 1 Year	Fixed Maturity Dates 1-5 Years	Fixed Maturity Dates 5+ years	Non Interest Bearing	Total
	%	\$	\$	\$	\$	\$	\$
<b>Financial Assets</b>							
Cash and cash equivalents	.71	1,191,910	-	-	-	3,005,550	4,197,460
Trade and other receivables/other financial assets	-	-	-	-	-	70,975	70,975
		1,191,910	-	-	-	3,076,525	4,268,435
<b>Financial Liabilities</b>							
Trade and other payables	-	-	-	-	-	189,680	189,680
Convertible Notes	12.4		598,828	748,726			1,347,554
Derivative financial instruments			96,450	321,440			417,890
		-	695,278	1,070,166	-	189,680	1,955,124

**(b) Interest rate risk**

At 30 June 2015, 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 \$116,216 higher (2014: changes of 1% \$11,919 higher/\$11,919 lower) based on cash and cash equivalent held at variable rates.

The 1% (2014: 1%) sensitivity is based on reasonably possible changes, over a financial year, using an observed range of historical RBA movements over the last year.

**(c) Foreign currency risk**

The Group currently conducts its operations across international borders.

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

To comply with Australian reporting requirements the income, expenditure and cash flows of the Group will need to be accounted for in Australian dollars. This will result in the income, expenditure and cash flows of the 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.

With instruments being held by overseas operations, fluctuations in the US dollar and UK pound sterling may impact on the Group's financial results.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

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.

2015 Consolidated Group	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	22,235,265	-	470,874	-	22,706,139
US dollar	-	-	(1,113,204)	-	(1,113,204)
UK pound sterling		-	-	-	
Statement of financial position exposure	22,235,265	-	(642,330)	-	21,592,935

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

2014 Consolidated Group	Net Financial Assets/(Liabilities) in AUD				
	USD	AUD	GBP	Other	Total AUD
Functional currency of entity:					
Australian dollar	9,081,153	-	413,831	-	9,494,984
US dollar	-	-	(944,223)	-	(944,223)
UK pound sterling		-	-	-	
Statement of financial position exposure	9,081,153	-	(530,392)	-	8,550,761

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

### (d) Credit Risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Group does not hold any credit derivatives to offset its credit exposure. The Group's exposure to credit risk is minimal.

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

### (e) Liquidity risk

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and ensuring sufficient cash and marketable securities are available to meet the current and future commitments of the Group. Due to the nature of the Group's activities, being development of a patented technology known as "Reactive Surface Technology", the Group does not have ready access to credit facilities, with the primary source of funding being equity raisings. The Board of Directors constantly monitor the state of equity markets in conjunction with the Group's current and future funding requirements, with a view to initiating appropriate capital raisings as required. As at 30 June 2015, all financial assets and financial liabilities have a maturity date of less than one year. As at 30 June 2014, Series B of the Convertible Note in the amount of \$1,004,500 and a maturity date of 30 March 2016 with an contractual obligation to pay interest at 12% per annum. The full amount owing on finance leases as at 30 June 2015 is \$57,691 which includes interest.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

### (f) Fair values of financial assets and liabilities

#### *Cash and cash equivalents*

The carrying amount approximates fair value because of their short-term to maturity.

#### *Trade receivables and trade creditors*

The carrying amount approximates fair value

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at June 30, 2015 and June 30, 2014.

#### Financial liabilities

2014	Level 1	Level 2	Level 3	Total
	AUD	AUD	AUD	AUD
Embedded derivatives	-		417,890	417,890

There were no transfers between Level 1, Level 2 and Level 3 in 2015 or 2014.

#### *Measurement of fair value of financial instruments*

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

#### *Embedded derivatives (Level 3)*

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**25. PARENT ENTITY INFORMATION**

The following details information related to the parent Entity, Alexium International Group Limited, at 30 June 2015. The information presented here has been prepared using consistent accounting policies as presented in Note 2.

	<b>Parent Entity</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>Restated</b>
	<b>\$</b>	<b>\$</b>
Current Assets	914,088	1,200,242
Non-current assets	10,981,720	3,657,673
Total Assets	11,895,808	4,857,915
Current liabilities	88,971	743,002
Non-current liabilities	-	1,070,167
Total Liabilities	88,971	1,813,169
Contributed equity	41,363,396	24,805,339
Accumulated losses	(33,224,386)	(22,470,602)
Performance rights reserves	363,510	106,971
Options reserves	3,304,317	603,038
Total equity	11,806,837	3,044,746
Loss for the year	(10,753,784)	(10,316,638)
Other comprehensive income net of tax for the year	-	-
Total comprehensive income net of tax for the year	(10,753,784)	(10,316,638)

The Company's commitments and contingencies are detailed in Note 26.

**26. COMMITMENTS AND CONTINGENCIES**

The Group has the following contingent liabilities and commitments.

- 1) Alexium has entered into an agreement with the United States Department of Defence whereby Alexium owns exclusive rights for the RST Technology under patent application in the United States in exchange for a 2.5% gross sales royalty to be paid to the US Government. Alexium has also entered into an agreement with Dr Owens for exclusive rights to the rest of the world, for the same patent application excluding the United States, in exchange for a 5% gross sales royalty to be paid to Dr Owens. These royalties only apply where the RST technology is used in the product production process, which does not include all fire retardant products.
- 2) On 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. This agreement continues on a month to month basis. This agreement was renewed in July 2015 for a further 12 months.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

- 4) On November 10 2014 the Group entered into an agreement with EAS Advisors LLC to provide corporate advisory services for US\$12,000 per month for a period of 6 months and \$14,000 per month for the following 6 months.
- 5) On February 5 2015 the Group entered into an agreement with Foster Stockbroking to provide corporate advisory services for \$5,000 per month for a period of 6 months and \$10,000 per month for the following 6 months.
- 6) On April 1 2015 the Group entered into an agreement with NWR Communications Pty Ltd to provide investor relations services for \$5,000 per month for a period of 6 months.

**(a) Commitments**

Lease commitments

(i) *Operating leases*

The Company leases certain premises under operating lease agreements. These premises are used for administration and operational activities with lease terms approximating 3 years. There are no contingent rent payments, and one lease contains a renewal option for one additional year.

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

	<b>Consolidated Group</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	80,041	69,483
Later than one year but not later than 5 years	10,913	71,992
	<u>90,954</u>	<u>141,475</u>

(ii) *Finance leases*

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

Depreciation of assets under financing leases is included in depreciation expense and totalled \$22,121 and \$3,761 for the years ended June 30, 2015 and 2014, respectively.

During the year ended 30 June 2014 the Group engaged in one finance lease that offered a bargain purchase option at the end of the 48 month term. Since the Group will obtain ownership of the equipment at the end of the lease, depreciation is taken over the asset's useful life of 48 months.

There are no contingent rentals or subleases.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

Present value of future minimum rental payments under financing leases having remaining terms in excess of one year are as follows as of June 30:

	2015	2014
	AUD	AUD
Not later than one year	64,874	13,060
Later than one year and not later than five years	60,901	33,740
Total	125,775	46,800
Future finance charges on finance leases	15,472	7,086
Present value of finance lease liability	110,303	39,714

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

	2015	2014
	AUD	AUD
Not later than one year	54,319	9,799
Later than one year and not later than five years	55,984	29,915
	110,303	39,714

Lease liabilities are secured over property, plant, and equipment. These assets will revert back to the lessor in the event of a default, as described in the agreements.

### (iii) 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. This agreement has been extended for 24 months to June 1 2015. Alexium Inc are currently reviewing the buyout option.

The Group had no other commitments as at 30 June 2015.

### (b) Contingencies

The Group has no other contingent liabilities as at 30 June 2015.

## 27. 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.

## 28. SUBSEQUENT EVENTS

Except for events disclosed elsewhere in this report no other significant event has occurred since the end of the financial year that may have a significant impact on the financial position of the Group

## DIRECTORS DECLARATION

---

The Directors of the Company declare that:

1. the financial statements, comprising the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of financial position, the consolidated statement of cash flows, the consolidated statement of changes in equity and accompanying notes, as set out on pages 31 to 74 are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the Group's financial position as at 30 June 2015 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 disclosure set out on pages 11 to 23 of the Directors' report (as part of the audited Remuneration Report) for the year ended 30 June 2015 comply with section 300A of the Corporations Act 2001.
5. in the Directors' opinion there are reasonable grounds to believe that the 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, 30<sup>th</sup> September 2015

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

**Report on the financial report**

We have audited the accompanying financial report of Alexium International Group Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the 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 of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

**Auditor's responsibility**

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

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

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

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

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

**Independence**

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

**Auditor's opinion**

In our opinion:

- a the financial report of Alexium International Group Limited is in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- b the financial report also complies with International Financial Reporting Standards as disclosed in the note 2 (a) to the financial statements.

**Report on the remuneration report**

We have audited the remuneration report included in pages 11 to 23 of the directors' report for the year ended 30 June 2015. 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 on the remuneration report**

In our opinion, the remuneration report of Alexium International Group Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



M J Hillgrove  
Partner - Audit & Assurance

Perth, 30 September 2015

## ADDITIONAL INFORMATION

### ALEXIUM INTERNATIONAL GROUP LIMITED

The distribution of members and their holdings at 21 September 2015 was as follows:-

NAME OF 20 LARGEST ORDINARY SHAREHOLDERS	NUMBER OF ORDINARY FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
Ms Joanne Ellen Rezos	20,000,000 *	7.34
Piper Buchanan Limited	11,363,000	4.17
JP Morgan Nominees Australia Ltd	9,893,284	3.63
Geonicclark Pty Ltd <Geonicclark Super Fund A/C>	8,820,000	3.24
Mr Peter John Bartter	7,000,000	2.57
Himstedt Superannuation Pty Ltd <Himstedt Super Fund A/C>	4,928,319	1.81
Korcula (BVI) S A	4,812,000	1.77
Dr Stuart Phillips and Mrs Fiona Phillips <SL & FJ Phillips S/F A/C>	4,600,000	1.69
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	4,424,595	1.62
Florent Ambo Pty Ltd <Rezos Family Super Fund A/C>	4,375,000	1.61
Mr Egan Harvey Johnson	4,119,586	1.51
National Nominees Limited	4,072,477	1.50
Buttonwood Nominees Pty Ltd	3,371,000	1.24
Mr Anil Utturkar & Mrs Rekha Utturkar <Rutna Super Fund A/C>	3,200,000	1.17
HSBC Custody Nominees (Australia) Limited	3,023,006	1.11
Citicorp Nominees Pty Ltd	2,821,541	1.04
Dr Stuart Phillips and Mrs Fiona Phillips <Stuart Phillips Family A/C>	2,200,000	.81
Catl Pty Ltd <The Minto A/C>	2,000,000	.73
HSBC Custody Nominees (Australia) Limited – GSCO ECA	1,943,590	.71
P & D Williamson Super Pty Ltd <Williamson Super Fund A/C>	1,825,000	.67
	108,792,398	39.94

#### MARKETABLE PARCEL

At 21 September 2015, 185 shareholders held less than a marketable parcel.

#### VOTING RIGHTS – ORDINARY SHARES

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

#### SUBSTANTIAL SHAREHOLDERS

Shares held by substantial shareholders listed in the company's register at 22 September 2014 are indicated by \* above.

#### STOCK EXCHANGE LISTING

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

Quotation has been granted on the Frankfurt Exchange

Alexium is fully quoted on the OTCQX

#### DISTRIBUTION OF SHAREHOLDERS

	Shareholders
1 - 1,000 shares	378
1,001 - 5,000 shares	953
5,001 - 10,000 shares	625
10,001 - 100,000 shares	1,483
100,001 and over	360
Total Ordinary Shareholders	3,799