

# Appendix 4E

## BLUGLASS LIMITED

ACN

**116825793**

Full Year Ended

**30 June 2017**

*Corresponding period was the twelve months ended 30 June 2016*

### Results for announcement to the market

#### RESULTS

		%		\$A
Revenues from ordinary activities	Down	3.7	to	2,801,850
(Loss) from ordinary activities after tax attributable to members	Up	6.8	to	(3,660,557)
(Loss) for the period attributable to members	Up	6.8	to	(3,660,557)

#### EPS

Earnings per Security (cents per share)	30 Jun 2017	30 Jun 2016
Basic loss per share (cents per share)	(0.98) cents	(1.03) cents
Diluted loss per share (cents per share)	(0.98) cents	(1.03) cents

#### Net Tangible Asset Backing

	30 Jun 2017	30 Jun 2016
Per Ordinary Security (cents per share)	2.62 cents	1.56 cents

#### Dividend Payable

No dividends have been paid or declared during the period.

#### Dividend Re-investment Plan

There is no dividend re-investment plan in operation.

#### Control gained over entities having material effect

There is no control over any new entities

NIL

#### Loss of control of entities having material effect

Name of entity (or group of entities)

NIL

#### Details of associates and joint venture entities

Name of entity (or group of entities)

NIL

*This report is based on the Full Year Financial Report which has been audited. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the Full Year Financial Report and the 30 June 2017 Annual Financial Report. No matters have arisen which would result in a dispute or qualification.*



# BLUGLASS LIMITED and CONTROLLED ENTITIES

ABN 20 116 825 793

FINANCIAL STATEMENTS FOR THE YEAR ENDING  
30 JUNE 2017

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# DIRECTORS' REPORT

Your directors present their report on BluGlass Limited and its controlled entities ("the Group") for the financial year ended 30 June 2017.

## DIRECTORS

The names of directors in office at any time during or since the end of the year are:

Mr George Venardos (retired 21 November 2016)

Mr Gregory Cornelsen

Mr Chandra Kantamneni

Dr William Johnson

Mr Vivek Rao

Mr Giles Bourne

Mr James Walker (appointed 25 July 2017)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

## PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was to further the research and development of Group III nitrides for the development of new processes and equipment to manufacture high efficiency devices such as LEDs and solar cells. The Group is working on achieving its technology milestones using its patented low temperature Remote Plasma Chemical Vapour Deposition (RPCVD) technology to manufacture semiconductor materials. RPCVD has many potential advantages over the current industry technologies.

There were no significant changes in the nature of the Group's principal activities during the financial year.

## REVIEW OF OPERATIONS

The 2017 Financial Year has seen major advancements for BluGlass, both with the accelerated development of our disruptive Remote Plasma Chemical Vapour Deposition (RPCVD) platform technology; and in preparing the path for industry acceptance and commercialisation.

To deliver on our goals the Group has significantly matured and de-risked the RPCVD technology by entering into another major collaboration agreement with a market leader, growing its world class technology team and recruiting a technology commercialisation expert to the BluGlass Board. The company also raised \$8.1M operational capital to provide the company with sufficient financial runway to expedite BluGlass' delivery capacity and capability which also enabled the successful upgrade of both RPCVD platforms, the BLG-180 and BLG-300.

BluGlass is continuing to make strong progress on its collaboration and evaluation agreements with several of the world's leading LED and power electronics companies. All of these achievements provide a robust foundation for the company as we work to deliver successful outcomes in our industry evaluations.

### RPCVD Technology Highlights

In September 2016, BluGlass announced that it had commissioned the upgraded BLG-180 (the smaller of BluGlass' two RPCVD systems). The upgrade was designed to help address the scalability and deposition uniformity of RPCVD required for commercial demonstrations. The upgraded chamber builds and improves on the existing RPCVD performance benchmarks; as well as creating a modular chamber design that can be easily scaled to larger deposition areas.

During October 2016, BluGlass was pleased to announce that it has successfully completed the technology demonstration outlined in Phase I of its exclusive evaluation agreement with industry leading LED company, Lumileds. This required BluGlass to successfully deliver several technical milestones and significantly advance the RPCVD technology development. The two companies are now collaborating on Phase II of the evaluation, where Lumileds will further investigate the integration of BluGlass' RPCVD technology in their LED applications.

November saw BluGlass demonstrating good improvement in thickness uniformity from the upgraded BLG-180 deposition chamber. These improvements in thickness uniformity are now of a suitable level to satisfy requirements for industry demonstrations on 2" wafers.

Also in November, BluGlass announced that it has entered into a collaboration agreement with IQE (LON: IQE) to develop specific enabling technology for high quality nitride films deposited by Remote Plasma Chemical Vapour Deposition (RPCVD) on both silicon wafers and on specially engineered cREO™ silicon substrates.

IQE is one of the world's leading semiconductor foundries and a global leader in the design and manufacture of advanced semiconductor wafer products. IQE products are deployed in high performance components by major global chip companies to produce a wide range of high-tech applications for the wireless industry, including in smartphone and wireless infrastructure, Wi-Fi, base stations, GPS, and satellite communications; optical communications and optical storage.

IQE Group's Vice President, Dr. Rodney Pelzel said at the time of the announcement "We are extremely pleased to announce our collaboration with BluGlass. BluGlass' world leading RPCVD technology is highly complementary to IQE's existing technology portfolio, and the collaboration is a key step in overcoming challenges inherent to epi-growth of cutting edge materials".

During May 2017, BluGlass expanded its technology team to better enable the company's growing commercialisation activity with the addition of two Process Engineers. Joining the engineering staff, the Process Engineers are responsible for assisting with the optimisation of RPCVD, device design and characterisation; and to deliver custom epitaxy services. BluGlass continues to attract exceptional talent to our specialist team, and the new staff bring a strong blend of skills and expertise to further enhance our world-class team.

Most recently in August, BluGlass announced that the upgraded BLG-300, the larger RPCVD platform had been successfully installed and commissioned. The upgraded platform demonstrated good progress in initial runs towards the uniformity and electrical properties required for the BluGlass industry evaluations. The upgraded BLG-300 has demonstrated that the new modular chamber design can be successfully implemented. This should be replicable in the future to enable even larger deposition RPCVD platforms.

While the performance optimisation of the hardware and process adjustments are ongoing, the BLG-300 is anticipated to return to the BluGlass industry evaluation work in early September. BluGlass and Lumileds agree that the Phase II Collaboration undertaken to date has made substantial progress. The application for RPCVD that BluGlass is exploring with Lumileds is very compelling, as demonstrated by the high level of commitment from Lumileds on the collaboration project. This along with the IQE collaboration will again be expedited with the upgraded BLG-300 recommencing industry work in the coming weeks.

## Foundry Highlights

In November, the company announced that it received a significant order commitment from a new customer, Seren Photonics for approximately \$600,000 of specialist epitaxy (foundry) development work to be delivered over a 12-month period. Seren Photonics is developing gallium nitride (GaN) technology targeting LED and other applications.

In June 2017, BluGlass announced that it had successfully facilitated the transfer of Seren Photonic's unique GaN template process to the BluGlass MOCVD platform, with the objective of transferring the process from laboratory scale equipment onto a production relevant MOCVD platform.

Seren's application, semi-polar gallium nitride (GaN), is an alternative GaN template for the manufacture of LEDs that overcomes many of the problems associated with the green gap (inability to make efficient green LEDs using MOCVD) and has the potential to also address LED efficiency droop, where the LEDs become gradually less efficient at high power. BluGlass and Seren are working together to demonstrate commercially viable semi-polar devices including reviewing the potential to use BluGlass' proprietary RPCVD technology to further improve the performance of green LEDs.

BluGlass continues to work with a number of customers assisting with their product development and providing a platform for future collaborations.

## Governance and Finance News

In October 2016, BluGlass raised \$5m via an institutional placement to support the company's three existing evaluation and collaboration agreements, and to enable BluGlass to explore additional strategic industry discussions and opportunities.

This was supported by a Share Purchase Plan (SPP) in December 2016 which raised \$3.1m, placing BluGlass in a strong financial position to execute its commercialisation plans, expedite hardware upgrades and grow the technology team.

Following the BluGlass 2016 AGM in November, BluGlass' Chairman, George Venardos retired from the company's Board after serving as Chairman for the previous six years and prior to this, as a Non-Executive Director since December 2008. The Board appointed Dr. William Johnson to replace Mr. Venardos as Chairman. Dr. Johnson was previously a Non-Executive Director and was appointed to the Board in September 2010.

More recently in July 2017, the BluGlass Board was strengthened with the addition of James Walker joining as a non-executive director. James is a seasoned executive, with a track record in successfully commercialising cutting-edge technology in emerging markets. James brings a wealth of experience to the BluGlass Board with over twenty years' executive and board experience, where he has built and scaled-up businesses across a wide range of global technology industries; from software, mining technology services, automotive, aviation, biotechnology, drone detection and security sectors. James has headed a number of Australian and international technology companies, including as Chief Executive Officer of DroneShield (ASX:DRO), Chief Financial Officer of Seeing Machines (AIM: SEE). He is presently the Chief Financial Officer of Fulcrum Pty Limited.

In conclusion, 2017 has been a successful year for the Company, laying the foundations for our industry acceptance milestones and preparing the company for commercialisation. Whilst this has taken some time, the BluGlass board and management look forward to delivering commercial outcomes for our shareholders and our breakthrough technology in the year ahead.

## FINANCIAL SUMMARY

The consolidated loss for the period increased 6.8% to \$3,660,557 (2016: \$3,427,566).

The net assets of the consolidated entity increased by \$4,465,061 to \$18,701,811 (2016: \$14,236,750) due the capital raise completed during the period.

Revenue has decreased by \$108,066 down 3.7% to \$2,801,850. Material variations in revenue received are as follows:

- Revenue for the provision of foundry services to third parties of \$550,087 (up 72%) was received for the year compared to \$318,577 in the 2016 financial year.
- The major variance from last year was there was no payments remaining from the Clean Technology Innovation Grant. Grant receipts in 2016 from the Commonwealth Climate Ready Grant Programme were \$342,447.

Gross expenditure has increased by \$124,925, up 2.0% to \$6,462,407 due to the following factors:

- Salaries and wages increased by \$138,578 up 5.2% (2016: \$2,615,989) due to an increase in staff numbers during the financial year
- Patents and trademark costs increased by \$82,542 up 66% (2016: \$124,182) during the year due to the renewal of patents that were required during the financial year.
- Depreciation expense is reducing as our research equipment is progressively written off, \$474,747 (2016: \$603,252).

Net cash required for operational expenses, and capital expenditure averaged \$305,046 per month, (2016: \$293,964). The increase is mainly due to the decrease in grants received from AusIndustry and the increase in staff costs.

The Statement of Financial Position does not include a value for the increasing number of patent applications and patents granted during the period. Since listing on the ASX in 2006 all research and development costs are expensed as incurred, and not capitalised. Accounting standards require that the originally acquired Intangible Assets, being the Intellectual Property associated with Patents 1 & 2 acquired from Macquarie University in 2006, be tested annually to ensure no impairment to the carrying value has occurred. The current value of \$8.695m has been reviewed by independent valuers and the directors have accepted their assessment that no impairment to the carrying value is warranted. This valuation is supported by the cornerstone nature of Patents 1 & 2 that were acquired from Macquarie University. Management's and the Board's view is that these patents are still fundamental enablers to the company's RPCVD technology.

## SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than the developments reported elsewhere in this report, there were no significant changes in the state of affairs during the year.

## DIVIDENDS PAID OR RECOMMENDED

No dividends were declared in 2017 or 2016.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no reportable financial matters subsequent to the end of the Financial Year.

## FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

BluGlass will position itself to take advantage of the growing LED, power electronics and solar markets in order to maximise shareholder return.

BluGlass will continue to validate the RPCVD technology as the company works towards its industry acceptance goals in order to commercialise the technology.

These developments, together with the current strategy of continuous improvement and innovation are expected to assist in the achievement of the Group's long-term goals and development of its business opportunities.

## ENVIRONMENTAL AND SAFETY ISSUES

The BluGlass RPCVD technology uses some materials classified under the Dangerous Goods Act. All materials and consumables are handled in compliance with relevant regulatory environmental, health and safety codes, as do all facility emissions.

The company has in place OHS&E procedures and a Safety Manager who reports weekly to the Managing Director on all safety and environmental related matters. BluGlass meets and exceeds all state and federal OHS&E statutory requirements.

There were no reportable incidents during the period. Reviews of site operations during the period has led to the implementation of new operational procedures. Bluglass has also recently adopted a cloud based WHS reporting and management system as part of its ongoing commitment to site safety.



## INFORMATION ON DIRECTORS

### DR. WILLIAM JOHNSON

### Non Executive Chairman

*BS-Phy, MS-EE, PhD*

#### Former Directorships (last 3 years)

President and CEO SPTS Pty Ltd

#### Special Responsibilities

Remuneration and Nominations Committee member,  
Audit and Risk Committee member

#### Experience and Expertise

William Johnson ("Bill"), is a seasoned CEO with extensive business development/M&A, technological leadership, and successful hands-on leadership roles in operations ranging from high technology start-ups to Fortune 500 high technology companies. He is the former President and Chief Executive Officer of SPP Process Technology Systems (SPTS), a manufacturer of capital equipment for the semiconductor and related industries.

Bill has held technical, marketing, and executive management positions with Ford Motor Co. Scientific Research Laboratories (1973-1978), Perkin-Elmer Corp. (1978-1986), Ulvac Corp. (1987-1991), Varian Associates (1992-1994), Intevac Inc. (1994-1996), Oryx Instruments and Materials Corp. (1996-1999). From 2003-2006, he was founder and managing director of Crane Ridge Associates, a firm providing consulting and M&A guidance to select high tech clientele; his association with Sumitomo Precision Products began in 2007, and he was the architect for the formation of SPTS through the acquisition of assets of Aviza Technology. Since then Bill was instrumental in leading the all equity based management buy-out of SPTS in mid 2011 which saw Bridgepoint, a leading European Private Equity company become a major owner in the company, and again with the sale of SPTS to Orobtech Limited in 2014.

### MR. GILES BOURNE

### Managing Director and Chief Executive Officer

*B.A. (Hons), MBA, FAICD*

#### Special Responsibilities

BluGlass Chief Executive Officer

#### Experience and Expertise

Giles is a senior executive with over 20 years of international business development experience gained in the clean-tech, technology and manufacturing sectors. He is a specialist in developing offshore business opportunities, securing inward expansion investment, setting up domestic and international partnerships, JV's and licensing deals for Australian corporations.

Giles' focus at BluGlass is to provide leadership as well as developing sales and marketing structures to support the commercialisation of BluGlass' LED and solar technology. During his time at BluGlass, Giles has lead the team to secure a strategic partnership with global semiconductor equipment company SPTS Technologies, secured more than \$25M in Government and Private Investment and supported the technology team to its proof of concept milestone.

### MR. CHANDRA KANTAMNENI

### Non Executive Director MSc, MS, MBA

#### Special Responsibilities

Audit and Risk Committee member

#### Experience and Expertise

Chandra Kantamneni has more than 30 years experience in the global semiconductor industry and until recently the Technical Director for the University of California Los Angeles (UCLA)'s California Nano Systems Institutes where he managed a state of the art semiconductor and cleanroom fabrication facility. Formerly he was the Vice President of Worldwide Fab Operations of US-based Peregrine Semiconductor Corporation where he managed the world wide Foundry Operations for the Corporation. Prior to that he was the Vice-President and Managing Director of Peregrine Semiconductor, Australia.

Chandra has worked in senior management and engineering positions for some of the world's largest US-based semiconductor companies, including director of worldwide foundry operations and engineering manager for International Rectifier Corporation, director of engineering for GMT Microelectronics, and Manufacturing Manager of the Fairchild Research Centre of National Semiconductor Corporation.

**MR. GREG CORNELSEN**

**Non Executive Director** *BEc*

**Current Directorships:**

None

**Former Directorships in last 3 years:**

**Special Responsibilities:**

Remuneration and Nominations Committee Chairman, Audit and Risk Committee Chairman

**Experience and Expertise**

Greg Cornelsen is an economics and business development specialist and a successful businessman having held leadership positions in both large Australian based multinationals and start-up operations. A former international rugby union player, with 25 caps for the Australian Wallabies, he is a committee member of the Australian Barbarian Rugby Club and the Chairman of the Australian Schools Rugby Foundation. His rugby and business backgrounds have allowed him to develop an extensive network within the Australian business community.

Greg is a long-time passionate supporter of sustainable practises and clean technologies having grown up on a family station that employed revolutionary broad acre sustainable practises. Greg has always understood the importance of the BluGlass technology for both the LED and solar industries. He is instrumental in steering the Board's sub committees.

**MR. VIVEK RAO**

**Non Executive Director** *MS-EE, BSc-Elec*

**Special Responsibilities:**

Audit and Risk Committee member

**Experience and Expertise:**

Vivek Rao is the Executive Vice President & Chief Operations Officer of SPT Microtechnologies (a Division of SPP Technologies). Vivek is a seasoned semiconductor professional with more than 20 years in the semiconductor capital equipment industry in various managerial and technical leadership roles and brings to the BluGlass board a strong understanding of BluGlass' target markets and customers, he joins the board as a Non-Executive Director.

**MR. JAMES WALKER**

**Non Executive Director** *B Comm, FCA, GAICD*

**Former Directorships in last 3 years**

Managing Director, DroneShield Limited  
Finance Director, Seeing Machines Limited

**Experience and Expertise:**

James Walker is a seasoned executive, with a track record in successfully commercialising cutting-edge technology in emerging markets.

He has headed a number of Australian and international technology companies, including as Chief Executive Officer of DroneShield (ASX:DRO), Chief Financial Officer of Seeing Machines (AIM: SEE) and held leadership positions in a number of growth companies including Hotel Dynamics, Fluorotechnics and Optalert.

James is currently the Chief Financial Officer of Fulcrum, an Australian technology company with proprietary software that enables large organisations to drive rapid commercial outcomes through an improved, data-driven customer experience. His strong finance, strategic management, M&A and IPO experience will add significant value to the BluGlass Board.

James is an entrepreneurial and passionate business executive who thrives on commercialising technology and building new global markets. He brings a wealth of experience to the BluGlass Board with over twenty years' executive and board experience, where he has built and scaled-up businesses across a wide range of global technology industries; from software, mining technology services, automotive, aviation, biotechnology, drone detection and security sectors.

## COMPANY SECRETARY

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

### **Mr Emmanuel Correia**

Emmanuel Correia is a Chartered Accountant and has extensive experience in the corporate finance and equity capital markets. Emmanuel has had over 20 years public accounting and corporate finance experience both in Australia, North America and the United Kingdom. He has held various senior positions with Big 4 accounting firms and boutique corporate finance houses.

Emmanuel provides corporate advice to a diverse client base both in Australia and in overseas markets. Emmanuel has previously held a number of public company directorships and his key areas of expertise include Initial Public Offerings and secondary capital raisings, corporate strategy and structuring merger and acquisitions. Emmanuel is currently a non executive director of Canyon Resources Limited.

# REMUNERATION REPORT 2016- 2017 (AUDITED)

## INTRODUCTION

The Directors of BluGlass Limited present the Remuneration Report for the Company and its controlled entities for the year ended 30 June 2017. This Remuneration Report forms part of the Directors Report and is subject to audit by the external auditor in accordance with the Corporations Act 2001.

The Report details the nature and amount of remuneration for the company's non-executive directors and the executive team who by definition are the company's **Key Management Personnel**. The Key Management Personnel are the key people accountable for directing the affairs of the company and its controlled entities.

The people who currently hold these Key Management Personnel positions are listed in the table below

NON-EXECUTIVE DIRECTORS		EXECUTIVES	
William Johnson	Chairman	Giles Bourne	Managing Director & CEO
George Venardos (retired 21 November 2016)	Director	Ian Mann	Chief Technology Officer
Gregory Cornelsen	Director	Stuart Uhlhorn	Chief Financial Officer
Chandra Kantamneni	Director		
Vivek Rao	Director		
James Walker (appointed 25 July 2017)	Director		

During the period the Remuneration and Nominations Committee comprised 3 independent directors - Greg Cornelsen (Committee Chairman), William Johnson, George Venardos (until 21 November 2016) and Vivek Rao (from 22 November 2016). The Committee met once during the year.

## REMUNERATION STRATEGY

The remuneration policy of BluGlass Limited has been designed to align shareholder objectives with the strategic business objectives of BluGlass. This is achieved by providing;

1. a competitive market related fixed remuneration component,
2. a small component of short term incentives and
3. long-term incentives based on key performance areas affecting the consolidated entity's ability to commercialise its technology milestones when achieved.

The remuneration policy, setting the terms and conditions for the directors and executives was developed by the remuneration committee and approved by the Board after seeking professional advice from independent external consultants.

The Board of BluGlass Limited aims for the remuneration strategy to attract and retain the appropriate executives and directors to run and manage the consolidated entity.

The ability to attract the best staff is achieved via ensuring all staff as well as executives and directors have access to a meaningful and rewarding long term incentive scheme currently in the form of an employee option scheme in association with an employee share trust that creates goal congruence between directors, executives and shareholders.

## NON-EXECUTIVE DIRECTORS' REMUNERATION

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration and nominations committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the company's employee option plan.

The current remuneration of non-executive directors is:

Position	Remuneration
	\$
Chairman	70,000
Director	40,000
Committee Chairperson	5,000
Committee member	2,500

A non-executive director's remuneration thus comprises the base board fee, any applicable committee chairman fee and the 9.5% superannuation levy contribution. Individual board fees have not risen since 2010/2011.

		SHORT TERM	POST EMPLOYMENT	LONG TERM INCENTIVES	TOTAL REMUNERATION	
		Board and Committee fees	Superannuation	Share Based Payments	Total	% of remuneration that is non-cash
		\$	\$	\$	\$	
<b>Directors</b>						
William Johnson	2017	60,179	-	81,600	141,779	58
	2016	42,500	-	-	42,500	-
Gregory Cornelsen	2017	50,000	4,750	40,800	95,550	43
	2016	50,000	4,750	-	54,750	-
Chandra Kantamneni	2017	42,500	4,038	40,800	87,338	47
	2016	42,500	4,038	-	46,538	-
Vivek Rao	2017	-	-	40,800	40,800	100
	2016	-	-	-	-	-
George Venardos	2017	28,408	2,699	-	31,107	-
	2016	70,000	6,650	-	76,650	-
<b>Total</b>	<b>2017</b>	<b>181,087</b>	<b>8,788</b>	<b>204,000</b>	<b>396,574</b>	<b>-</b>
Total	2016	205,000	15,438	-	220,438	-

Mr Vivek Rao is the nominated director representing SPT Japan Co. Ltd, and is paid in his capacity as a director, directly by SPT Japan.

## EXECUTIVE REMUNERATION

The Board's policy for determining the nature and amount of remuneration for executives of the consolidated entity is as follows:

All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, access to a limited short term cash incentive scheme and to the longer term incentive scheme via options. Short term incentives are only paid once predetermined annual key performance indicators have been met and are capped at 20% of base salary. Longer term incentives may be paid in the form of options or rights and are intended to align the interests of the key management personnel and company with those of shareholders. No options or shares were issued to executives during the period in respect to the LTI's. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.

The remuneration and nominations committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from similar industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the achievement of specific BluGlass technology and commercial milestones being achieved and the efficient conduct of the Company's operations. All bonuses and incentives are linked to these predetermined performance criteria or milestones. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to reward executives for performance that will result in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements under the employee incentive scheme.

Executives receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to executives is valued at the cost to the company and expensed. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options issued during the year are valued at the closing share price at grant date less the exercise price where appropriate.

### EXECUTIVE TOTAL REMUNERATION

		SHORT TERM		POST EMPLOY-MENT	LONG TERM INCENTIVES	TOTAL REMUN-ERATION	% OF REMUNERATION	
		Cash Salary	KPI Related Incentive	Superannuation	Share Based Payments	Total	Performance based	Options based
Executives		\$	\$	\$	\$	\$		
Giles Bourne	2017	315,813	61,179	27,666	-	404,658	15.1	-
	2016	305,645	-	27,235	74,750	407,630	-	18.3
Ian Mann	2017	232,906	22,247	29,714	-	284,867	7.8	-
	2016	221,834	-	21,074	143,250	386,158	-	37.1
Stuart Uhlhorn	2017	167,534	35,861	33,373	-	236,768	15.1	-
	2016	170,687	-	36,515	52,000	259,202	-	20.1
<b>Total</b>	<b>2017</b>	<b>716,253</b>	<b>119,287</b>	<b>90,753</b>	<b>-</b>	<b>926,293</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>2016</b>	<b>698,166</b>	<b>-</b>	<b>84,824</b>	<b>270,000</b>	<b>1,052,990</b>	<b>-</b>	<b>-</b>

The value of share based payments in the above table reflects the full market price of the underlying BluGlass share price at the date of issue and may not reflect the current market value of the shares granted. Additionally no discount for uncertainty has been assigned to these valuations, which do carry the risk of not meeting vesting hurdles.

## CONTRACTED EXECUTIVE REMUNERATION

The company secretary, Emanuel Correia is contracted to BluGlass from Cardrona Energy Pty Ltd. The contract includes provisions that the contract may be terminated by either party with one months' notice. Payments for services to Cardrona were \$79,200 in 2016 and 2017. As a contracted position the company secretary does not form part of the BluGlass' executive team.

## EMPLOYMENT CONTRACTS OF EXECUTIVES

The employment terms and conditions of the CEO and other executives are formalised in contracts of employment. All executives are permanent employees of BluGlass Limited.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of one months' notice prior to termination of contract. The CEO's contract is subject to 3 months' notice. Termination payments are determined by the remuneration and the nominations committee if a termination payment is deemed appropriate. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one months' notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

## PERFORMANCE BASED REMUNERATION

As part of the executive remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives to ensure buy-in. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, and cover financial and non-financial as well as short and long term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved and the period of employment for the period. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year. The majority of executives KPIs for the year ending June 2016 were met, performance payment's were made during the year for the achievement and paid in late August 2016.

The IP portfolio at the end of 30 June 2017 now includes 47 granted patents in various countries, covering six separate patent families. In addition there are 9 patent applications in various stages filed in numerous countries.

	2012	2013	2014	2015	2016	2017
Revenue \$'000	2,427.8	4,725.9	4,112.7	3,532.9	2,809.9	2,801.9
Net Loss \$'000	3,237.3	1,676.7	2,898.4	3,173.9	3,427.6	3,660.6
Share price at year-end cents	8.6	15	12.5	5.8	21	26
Patents lodged	1	2	2	3	-	9
Patents Granted	2	2	14	5	9	14

BluGlass' potential value exists in it being able to finalise its research and development programmes and to then commercialise its IP portfolio into the growing markets for LED, GaN on silicon and high efficiency solar cell manufacturing equipment.



## OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2017

Options, approved by the November 2016 AGM, were granted to non-executive directors as remuneration during the year. The conditions of the options were-

- The Company successfully completing the Lumileds phase 1 & 2 milestones, or
- 2 years continuous services as a director or employee of the Company from the date of issue.

No options were granted to executives.

Directors	Grant Details					Overall			
	Date	No.	Value \$	Exercised no.	Lapsed no.	Vested no.	Vested %	Unvested %	Lapsed %
30/06/2017									
William Johnson	2/12/2016	240,000	81,600	-	-	-	-	-	-
Greg Cornelsen	2/12/2016	120,000	40,800	-	-	-	-	-	-
Chandra Kantamneni	2/12/2016	120,000	40,800	-	-	-	-	-	-
Vivek Rao	2/12/2016	120,000	40,800	-	-	-	-	-	-
				-	-	-			

## MOVEMENT IN SHAREHOLDINGS OF KMP AS AT 30 JUNE 2017

	Total	Direct	* BLG ESS	Movement		Total	Direct	* BLG ESS
Non-Executives directors	Opening Balance			On	Off	Closing Balance		
William Johnson	670,000	390,000	280,000	46,875	-	716,875	436,875	280,000
Greg Cornelsen	1,814,941	1,267,941	547,000	15,625	-	1,830,566	1,283,566	547,000
Chandra Kantamneni	979,647	432,647	547,000	-	-	979,647	432,647	547,000
Vivek Rao	-	-	-	-	-	-	-	-
Executives								
Giles Bourne	2,398,566	334,233	2,064,333	443,750	350,000	2,142,416	428,083	1,714,333
Ian Mann	1,257,943	357,943	900,000	480,000	632,943	1,105,000	25,000	1,080,000
Stuart Uhlhorn	1,307,283	308,950	998,333	510,000	808,950	978,333	10,000	968,333

\* BLG ESS means vested options that have not yet been withdrawn from Employee Share Scheme Trust by the beneficiary.



## OPTIONS HELD BY KMP AS AT 30 JUNE 2017

Non-Executive Directors	Opening Balance	Vested in O/B	Vested in period	Movement			Closing Balance	Unvested %	Exercisable at year end %
				Total Vested	Exercised	Granted in period			
William Johnson	280,000	280,000	-	280,000	280,000	240,000	240,000	100	0
Greg Cornelsen	547,000	280,000	267,000	547,000	547,000	120,000	120,000	100	0
Chandra Kantamneni	547,000	280,000	267,000	547,000	547,000	120,000	120,000	100	0
Vivek Rao	-	-	-	-	-	120,000	120,000	100	0
<b>Executives</b>									
Giles Bourne	3,214,333	2,064,333	660,000	2,724,333	2,064,333	-	1,150,000	100	0
Ian Mann	2,630,000	900,000	480,000	1,380,000	1,380,000	-	1,250,000	100	0
Stuart Uhlhorn	2,278,333	998,333	480,000	1,478,333	1,478,333	-	800,000	100	0

Options are vested when vesting criteria have been met. Options are then converted into ordinary shares and held in the BluGlass Employee Share scheme Trust until they are elected to be withdrawn by the beneficiary.

For clarity the vested options held as shares in the Trust are also disclosed in the KMP's shareholding above as they can be exercised and withdrawn at any time once vested.

## SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS

Options totalling 2,842,000 were exercised during the year by the Company's employee share trust, BluGlass Employee Incentive Plan Pty Ltd. When options that have been granted as compensation in prior periods meet the requisite vesting conditions they are exercised by the trust into shares. These shares are then held in the share trust for the eligible employees until employees exercise their right to withdraw the shares from the trust. During the year 3,161,777 shares were withdrawn from the trust.

## APPROVAL OF 2016 REMUNERATION REPORT

A resolution seeking approval of the 2016 Remuneration Report was tabled at the November 2016 Annual General Meeting. The resolution was passed at that meeting with the vote in favour recorded of 99.5%.

## REMUNERATION ADVISORS

No remuneration advisors were engaged during the year or any formal remuneration advice was received during the year.

- END OF REMUNERATION REPORT – AUDITED -

## DIRECTORS' REPORT cont.

### MEETINGS OF DIRECTORS

During the financial year, 8 meetings of directors were held. Attendances by each director during the year were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
	Number eligible to attend	Number Attended		Audit & Risk Committee		Remuneration & Nominations Committee
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
<b>George Venardos</b>	5	5	1	1	1	1
<b>Gregory Cornelsen</b>	8	8	3	3	1	1
<b>Chandra Kantamneni</b>	8	8	3	3	-	-
<b>William Johnson</b>	8	8	2	2	1	1
<b>Giles Bourne</b>	8	8	-	-	-	-
<b>Vivek Rao</b>	8	7	-	-	-	-

### INDEMNITIES GIVEN TO AND INSURANCE PREMIUMS PAID FOR AUDITORS AND OFFICERS

The Group has entered into Deeds of Indemnity, Insurance and Access with each of the directors and the Company Secretary. Each deed provides officers with the following:

- ✦ A right to access certain Board papers of the Group during the period of their tenure and for a period of seven years after that tenure ends;
- ✦ Subject to the Corporations Act 2001, an indemnity in respect of liability to persons other than the Group and its related bodies corporate that they may incur while acting in their capacity as an officer of the Group or a related body corporate, except where that liability involves a lack of good faith, and for defending certain legal proceedings; and the requirement that the Group maintains appropriate directors' and officers' insurance for the officer.
- ✦ No liability has arisen under these indemnities as at the date of this report.
- ✦ The Company has paid premiums of \$29,350 (2016: \$28,350) to insure each of the directors, secretary and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a director or officer of the company, other than conduct involved in a wilful breach of duty in relation to the company.
- ✦ The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

## OPTIONS

At the date of this report, the unissued ordinary shares of BluGlass Limited under option are as follows:

### Options

At the date of this report, the unissued ordinary shares of BluGlass Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
16/09/2015	1/12/2018	0.01	5,500,000
20/05/2016	1/06/2018	0.01	1,170,000
23/11/2016	1/12/2018	0.01	600,000
23/11/2016	1/12/2018	0.5	1,500,000
			<hr/>
			8,770,000
			<hr/>

During the year ended 30 June 2017, 2,842,000 ordinary shares of BluGlass Limited were issued on the exercise of options.

## CORPORATE GOVERNANCE POLICY AND STATEMENT

The Groups Corporate Governance statement can be viewed on the company's website at [www.bluglass.com.au](http://www.bluglass.com.au)

## DIVERSITY POLICY

BluGlass has established a Diversity Policy that outlines the Company's commitment to diversity and the active steps the Company will take in implementing the policy, commensurate with a company of its size and the industry with which it operates. A copy of the Diversity Policy is contained in Annexure 7 of the Company's Corporate Governance Statement, a copy of which is available on the Company's website.

Our policy is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. Due to the Company's current size and level of activity there has been limited opportunity with which to measure the Company's commitment to its diversity policy during the 2017 financial year. During the year there was minimal staff movement and no change to the Company's executive team. The board discusses its diversity policy at board meeting's were potential changes to the work force is discussed.

It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

### Ethnic Diversity

Total Staff	Australian and NZ	Asian	Americas	European
20	9	5	1	5

### Gender Diversity

	Male	Female
Total Staff	12	8
Senior Executives	3	-
Senior Research Staff	2	2
Non-Executive Directors	4	-

## DIVERSITY POLICY (Cont)

### Educational Diversity

Total Staff	PhD	Masters	Bachelor	Other Qualifications	No Qualifications
20	9	10	15	3	2

## PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party of taking responsibility on behalf of that company for all or any part of those proceedings.

## NON-AUDIT SERVICES

The Board of directors, in accordance with advice from the Audit and Risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non-audit services payable to the external auditors during the year ended 30 June 2017.

## AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required by s307C of the Corporation Act 2001 for the year ended 30 June 2017 has been received and can be found on page 21 and forms part of the Directors' Report.

This Directors' Report incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors.



William Johnson

Chairman

Dated the 21<sup>st</sup> day of August 2017

Level 17, 383 Kent Street  
Sydney NSW 2000

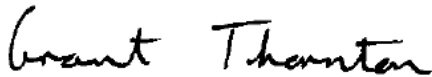
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## AUDITOR'S INDEPENDENCE DECLARATION TO THE DIRECTORS OF BLUGLASS LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Bluglass Limited for the year ended 30 June 2017, 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



G S Layland  
Director - Audit & Assurance

Sydney, 21 August 2017

# PROFIT OR LOSS AND COMPREHENSIVE INCOME

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated Entity	
		2017	2016
		\$	\$
Revenue	2	684,855	368,144
Other income	2	2,116,995	2,541,772
Employee benefits expense	16	(3,145,137)	(2,993,705)
Professional fees		(136,403)	(122,416)
Board and secretarial fees		(260,039)	(308,161)
Corporate compliance & legal expense		(92,836)	(73,931)
Consultant fees		(346,885)	(355,031)
Rent expense		(271,084)	(262,298)
Travel and accommodation expense		(132,073)	(104,715)
Consumables		(896,515)	(1,000,321)
Depreciation and amortisation expense		(474,747)	(603,252)
Other expenses		(706,688)	(513,652)
<b>Loss before income tax</b>	<b>3</b>	<b>(3,660,557)</b>	<b>(3,427,566)</b>
Income tax expense	4	-	-
<b>Loss for the period</b>		<b>(3,660,557)</b>	<b>(3,427,566)</b>
<b>Other comprehensive income</b>			-
<b>Total comprehensive income</b>		<b>(3,660,557)</b>	<b>(3,427,566)</b>
<b>Loss attributable to:</b>			
- Members of the parent entity		(3,660,557)	(3,427,566)
- Non-controlling interest		-	-
		<b>(3,660,557)</b>	<b>(3,427,566)</b>
<b>Total Comprehensive Income attributable to:</b>			
- Members of the parent entity		(3,660,557)	(3,427,566)
- Non-controlling interest		-	-
		<b>(3,660,557)</b>	<b>(3,427,566)</b>
<b>Earnings Per Share</b>			
Basic loss per share (cents per share)	6	(0.98)	(1.03)
Diluted loss per share (cents per share)	6	(0.98)	(1.03)

The financial statements should be read in conjunction with the following notes.

# FINANCIAL POSITION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2017

	Note	Consolidated Entity	
		2017	2016
		\$	\$
<b>Current Assets</b>			
Cash and cash equivalents	7	8,510,931	3,409,700
Trade and other receivables	8	2,163,719	2,110,000
Consumables	9	103,843	101,318
Other current assets	10	43,205	59,322
<b>TOTAL CURRENT ASSETS</b>		<b>10,821,698</b>	<b>5,680,340</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	11	336,200	773,945
Intangible assets	12	8,695,000	8,695,000
<b>TOTAL NON-CURRENT ASSETS</b>		<b>9,031,200</b>	<b>9,468,945</b>
<b>TOTAL ASSETS</b>		<b>19,852,898</b>	<b>15,149,285</b>
<b>Current Liabilities</b>			
Trade and other payables	14	398,632	245,146
Short-term provisions	15	400,865	214,078
<b>TOTAL CURRENT LIABILITIES</b>		<b>799,497</b>	<b>459,224</b>
<b>Non-Current Liabilities</b>			
Long-term provisions	15	351,590	453,311
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>351,590</b>	<b>453,311</b>
<b>TOTAL LIABILITIES</b>		<b>1,151,087</b>	<b>912,535</b>
<b>NET ASSETS</b>		<b>18,701,811</b>	<b>14,236,750</b>
<b>Equity</b>			
Issued capital	17	56,630,407	48,575,895
Reserves	18	175,181	104,075
Accumulated Losses		(38,103,777)	(34,443,220)
<b>TOTAL EQUITY</b>		<b>18,701,811</b>	<b>14,236,750</b>

The financial statements should be read in conjunction with the following notes.



# CHANGES IN EQUITY

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2017

	Issued Capital	Share-Based Payments Reserve	Other Reserves	Accumulated Losses	Total
	\$	\$	\$	\$	\$
<b>Consolidated Entity</b>					
<b>Balance at 1 July 2015</b>	44,519,279	1,431,212	(982,452)	(31,015,654)	13,952,385
Profit for the year	-	-	-	(3,427,566)	(3,427,566)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	<b>(3,427,566)</b>	<b>(3,427,566)</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the year	3,515,058	-	-	-	3,515,058
Share transaction costs during the year	(201,512)	-	-	-	(201,512)
Share options issued	-	377,715	-	-	377,716
Exercise of share option	743,070	(722,400)	-	-	20,670
Dividends paid or provided for	-	-	-	-	-
<b>Balance at 30 June 2016</b>	<b>48,575,895</b>	<b>1,086,527</b>	<b>(982,452)</b>	<b>(34,443,220)</b>	<b>14,236,750</b>
<b>Balance at 1 July 2016</b>	48,575,895	1,086,527	(982,452)	(34,443,220)	14,236,750
Profit for the year	-	-	-	(3,660,557)	(3,660,557)
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the year</b>	-	-	-	<b>(3,660,557)</b>	<b>(3,660,557)</b>
<b>Transactions with owners in their capacity as owners</b>					
Shares issued during the year	8,126,000	-	-	-	8,126,000
Share transaction costs during the year	(612,904)	193,532	-	-	(419,372)
Share options issued	-	390,570	-	-	390,570
Exercise of share options	541,416	(512,996)	-	-	28,420
Dividends paid or provided for	-	-	-	-	-
<b>Balance at 30 June 2017</b>	<b>56,630,407</b>	<b>1,157,633</b>	<b>(982,452)</b>	<b>(38,103,777)</b>	<b>18,701,811</b>

The financial statements should be read in conjunction with the following notes.

# CASHFLOWS

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	Note	Consolidated Entity	
		2017	2016
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from grants		-	342,447
Receipts from customers		550,087	318,577
Interest and other income received		2,251,763	2,148,892
Payments to suppliers and employees		(5,398,634)	(5,262,367)
<b>Net cash used in operating activities</b>	<b>21</b>	<b>(2,596,784)</b>	<b>(2,452,451)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(37,000)	(914)
<b>Net cash used in investing activities</b>		<b>(37,000)</b>	<b>(914)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares, net of transaction costs		7,706,595	3,313,546
Proceeds from options exercised		28,420	20,670
<b>Net cash provided by financing activities</b>		<b>7,735,015</b>	<b>3,334,216</b>
Net increase in cash held		5,101,231	880,851
Cash at beginning of financial year		3,409,700	2,528,849
<b>Cash at end of financial year</b>	<b>7</b>	<b>8,510,931</b>	<b>3,409,700</b>

The financial statement should be read in conjunction with the following notes.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers BluGlass Limited as a consolidated entity ("Group"). BluGlass Limited is a listed public company, incorporated and domiciled in Australia.

The separate financial statements of the parent entity BluGlass Limited have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 21<sup>st</sup> August 2017 by the directors of the company

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report.

### Basis of Preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). BluGlass Limited is a for-profit entity for the purpose of preparing financial statements.

The accounting policies set out below have been consistently applied to all years presented.

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

### Accounting Policies

#### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by BluGlass Limited at the end of the reporting period. Bluglass controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year they were controlled. A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities have a June financial year-end.

In preparing the consolidated financial statements all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the parent entity.

Non-controlling interests, presented as part of equity, represents the portion of a subsidiary's profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries and the non-controlling interests bond on their respective ownership interests.

#### (b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (revenue) and deferred tax expense (revenue).

Current income tax expense charged to the profit and loss is the tax payable on taxable income calculated using applicable tax rates enacted, or substantially enacted, as at reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (b) Income Tax (cont.)

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

#### Tax consolidation

BluGlass Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. BluGlass Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 September 2006. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

### (c) Inventories

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

### (d) Plant and Equipment

Each class of plant and equipment is carried at cost as indicated, less, where applicable, any accumulated depreciation and impairment losses.

#### Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

#### Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Furniture and Fittings	10%
Plant and equipment	20-100%
Leasehold improvements	33.33%
Computer hardware and software	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss statement.

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

### (e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

### (f) Financial Instruments

#### Recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transaction costs related to instruments classified as at fair value through profit and loss are expensed to the profit and loss immediately. Financial instruments are classified and measured as set out below.

#### Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

#### Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

#### Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the profit or loss.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)****(g) Impairment of assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

**(h) Intangibles****Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks and intellectual property have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 5 to 10 years.

**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**Intellectual property**

Intellectual property (IP) which represents in process research is recognised at cost of acquisition. IP has a finite life once the asset is ready for use. Once the asset is ready for use the asset will be carried at cost less any accumulated amortisation and any impairment losses.

**(i) Foreign Currency Transactions and Balances****Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent and controlled entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the profit or loss, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)****(j) Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cash flows are discounted using market yields on high quality corporate bonds with terms to maturity that match the expected timing of cash flows.

**Equity-settled compensation**

The Group operates an equity-settled share-based payment employee share and option scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using the Cox-Ross-Rubenstein Binomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

**(k) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(l) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

**(m) Revenue and Other Income**

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

**(n) Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(o) Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

**(p) Borrowing Costs**

Borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

**(q) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.



## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

### (r) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

#### *Key estimates — Impairment*

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. See Note 12: Intangible assets for further disclosure of impairment.

#### *Key estimates — Share options*

The company issued options under the BluGlass Limited prospectus and the employee incentive option scheme. The options granted in the year were valued using the BluGlass share price at the date of grant. The prior year options were valued the same as they are currently valued. The key inputs to the pricing model are disclosed on Note 22. In addition to the pricing, key judgements revolve around the likelihood of vesting and estimated vesting date where there are vesting conditions. These judgements impact the expense recorded for the period.

#### *Key estimates — Deferred Taxes*

Deferred taxes have not been recognised on the Company's tax losses due to the uncertainty in relation to the timing of the losses being utilised in the future.

### (s) Adoption of New and Revised Accounting Standards

A number of new and revised standards became effective for the first time in annual periods beginning on or after 1 July 2015. Information on the more significant standards(s) is presented below

#### **AASB 15 Revenue from Contracts with Customers, which becomes mandatory for 30 June 2019 consolidated financial statements.**

AASB 2015-4 amends AASB128 Investments in Associates and Joint Ventures to ensure that its reporting requirements on Australian groups with a foreign parent align with those currently available in AASB 10 Consolidated Financial Statements for such groups. AASB 128 will now only require the ultimate Australian entity to apply the equity method in accounting for interests in associates and joint ventures, if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

AASB 2015-4 is applicable to annual reporting periods beginning on or after 1 July 2015 the adoption of this amendment has not had a material impact on the group.

### (t) Accounting Standards issued but not yet effective and not adopted early by the Group

A number of new standards, amendments to standards and interpretations are effective for financial years beginning on or after 1 July 2017, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the below are expected to have an effect on the consolidated financial statements of the Group.

- AASB 15 Revenue from Contracts with Customers that replaces AASB 118 Revenue, AASB 111 Construction contracts and some revenue related interpretations which becomes mandatory for 30 June 2019 consolidated financial statements .
  - Establishes a new revenue recognition model
  - Changes the basis for deciding whether revenue is to be recognised over time or at a point in time.
  - Provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, right of return, warranties and licensing)
  - Expands and improves disclosure about revenue.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.



## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- AASB 16 Leases replaces AASB 117 Leases and some lease related interpretations which becomes mandatory for the Groups 30 June 2020 consolidated financial statements.
  - Requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases.
  - Provides new guidance on the application of the definition of lease and on sale and lease back accounting
  - Largely retains the existing lessor accounting requirements in AASB117
  - Requires new and different disclosures about leases.

Based on the entity's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular:

- lease assets and financial liabilities on the balance sheet will increase by an estimated \$233,972 (based on the facts at the date of the assessment)
- there will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities

The Group does not plan to adopt these standards early.

### (u) **Going Concern**

Notwithstanding the net loss for the year and the accumulated losses for the Consolidated Group, the directors have performed a review of the cash flow forecasts and consider the Company to be a going concern.

The directors have approved the company's forward business plans with an understanding that sufficient cash resources are available to meet the company's commitments over the next twelve months.

The directors have prepared the financial statements on a going concern basis as the company also has a number of options for raising future capital requirements. Additionally as a fall back equity based funding options are available to the company to continue its research and development efforts.

## NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Entity	
	2017 \$	2016 \$
Revenue		
— interest received from other persons	134,768	49,567
— Other revenue - foundry revenue	550,087	318,577
Total Revenue	684,855	368,144
Other Income		
— grant revenue	-	342,447
— Research and development tax rebate	2,116,995	2,199,325
Total other income	2,116,995	2,541,772

## NOTE 3: LOSS FOR THE YEAR

Expenses:	Consolidated Entity	
	2017 \$	2016 \$
Rental Expense on operating leases		
— Minimum lease payments	271,084	262,298
Share based payments	390,570	377,716

## NOTE 4: INCOME TAX EXPENSE

	Consolidated Entity	
	2017 \$	2016 \$
(a) The components of tax expense comprise:		
— Current tax	-	-
— Deferred tax	-	-
	-	-

**NOTE 4: INCOME TAX EXPENSE (cont.)**

		<b>Consolidated Entity</b>	
		<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
(b)	The prima facie tax on loss before income tax is reconciled to the income tax as follows:		
	Prima facie tax payable on loss before income tax at 30% (2016: 30%)		
—	consolidated entity	(1,098,167)	(1,028,270)
Add:			
Tax effect of:			
—	IPO related costs(deductible over 5 years)	92,709	92,709
—	share based payments during year	117,171	113,315
—	other non-allowable items	66,163	40,743
		<u>273,043</u>	<u>246,767</u>
Add:			
Income tax benefit not brought to account		<u>(825,124)</u>	<u>(781,503)</u>
Income tax benefit attributable to the entity			-
Accumulated tax losses not brought to account		<u>7,302,872</u>	<u>6,477,748</u>

**NOTE 5: AUDITORS' REMUNERATION**

		<b>Consolidated Entity</b>	
		<b>2017</b>	<b>2016</b>
		<b>\$</b>	<b>\$</b>
Remuneration of the auditor for:			
—	auditing or reviewing the financial report	62,650	60,000
—	Other audit services	-	7,500
		<u>62,650</u>	<u>67,500</u>

**NOTE 6: LOSS PER SHARE**

	<b>Consolidated Entity</b>	
	<b>2017</b> \$	<b>2016</b> \$
(a) Loss attributable to members of the parent entity	(3,660,557)	(3,427,566)
(b) Basic and diluted loss per share (cents per share)	(0.98)	(1.03)
	<b>No.</b>	<b>No.</b>
(c) Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS.	372,397,916	331,753,020

**NOTE 7: CASH AND CASH EQUIVALENTS**

	<b>Consolidated Entity</b>	
	<b>2017</b> \$	<b>2016</b> \$
Cash at bank and in hand	587,038	103,575
Short-term bank deposits	7,923,485	3,305,620
Petty cash	408	505
	<u>8,510,931</u>	<u>3,409,700</u>

The effective interest rate on short-term bank deposits was 2.23% (2016:2.78%), these deposits have an average maturity of less than 14 days.

**NOTE 8: TRADE AND OTHER RECEIVABLES**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Research and Development Tax Rebate	2,100,000	2,100,000
Other	63,719	10,000
	<b>2,163,719</b>	<b>2,110,000</b>

All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value. No impairment of receivables is deemed to exist. There were no bad debts during the year (2016: nil).

**NOTE 9: CONSUMABLES**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Consumables	103,843	101,318
	<b>103,843</b>	<b>101,318</b>

**NOTE 10: OTHER CURRENT ASSETS**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
CURRENT		
Prepayments	24,861	23,280
Security deposit	14,516	14,516
Other receivables	3,828	21,526
	<b>43,205</b>	<b>59,322</b>

All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value. No impairment of receivables is deemed to exist. There were no bad debts during the year (2016: nil).

**NOTE 11: PLANT AND EQUIPMENT**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	6,226,689	6,226,689
Accumulated depreciation	(5,948,817)	(5,752,469)
Total plant and equipment	<b>277,872</b>	<b>474,220</b>
Leased plant and equipment		
At cost	1,006,170	1,006,170
Accumulated depreciation	(1,006,170)	1,006,170
	<b>-</b>	<b>-</b>

**NOTE 11: PLANT & EQUIPMENT (cont.)**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Leasehold improvements		
At cost	3,797,008	3,797,007
Accumulated depreciation	(3,783,003)	(3,527,705)
Total leasehold improvements	14,005	269,302
Furniture and fittings		
At cost	146,094	145,340
Accumulated depreciation	(138,287)	(127,446)
Total furniture and fittings	7,807	17,894
Computer equipment		
At cost	312,777	276,531
Accumulated depreciation	(276,261)	(264,002)
Total computer equipment	36,516	12,529
Total property, plant and equipment	336,200	773,945

**(a) Movements in Carrying Amounts**

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

	<b>Leased Plant and Equipment</b>	<b>Plant and Equipment</b>	<b>Leasehold Improvements</b>	<b>Furniture and Fittings</b>	<b>Computer Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated Entity:</b>						
Balance at 30 June 2016	-	474,220	269,302	17,894	12,529	773,945
Additions	-	-	-	754	36,246	37,000
Disposals	-	-	-	-	-	-
Depreciation expense	-	(196,348)	(255,297)	(10,841)	(12,261)	(474,747)
Balance at 30 June 2017	-	277,872	14,005	7,807	36,516	336,200

**NOTE 12: INTANGIBLE ASSETS**

	<b>Consolidated Entity</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
In process research and development:		
Cost	12,130,080	12,130,080
Accumulated impaired losses	(3,435,080)	(3,435,080)
Net carrying value	8,695,000	8,695,000

**NOTE 12: INTANGIBLE ASSETS (cont.)**

The Company obtained a valuation of the intellectual property from an independent valuer Acuity Technology Management Pty Ltd to assist the directors in assessing impairment. The methodology used by the independent valuer to determine the value of the intellectual property was based on a discounted cash flow (DCF) method adjusted for the probability of achieving certain milestones. The DCF was based on management cash flow projections for 10 years covering a variety of revenue scenarios that includes, manufacturing, royalties and retro-fitting existing machinery. The market information has been drawn from industry sources and the Company's current level of technology development. Greater than 5 years is appropriate based on the expected life cycle of the technology. The DCF has been discounted at between 15% and 17% (2016:15% to 17%). Other general market considerations have been considered including the market capitalisation of BluGlass. The IP was assessed to have a value between \$22.2 million to \$28.1 million.

**NOTE 13: CONTROLLED ENTITIES****(a) Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2017	2016
Parent Entity:			
BluGlass Limited	Australia	-	-
Subsidiaries of BluGlass Limited:			
Gallium Enterprises Pty Ltd	Australia	100	100
BluSolar Pty Ltd	Australia	100	100
BluGlass Deposition Technologies Pty Ltd	Australia	100	100
BluGlass Research Pty Ltd	Australia	100	100
EpiBlu Technologies Pty Ltd	Australia	100	100

\* Percentage of voting power is in proportion to ownership

**NOTE 14: TRADE AND OTHER PAYABLES**

	Consolidated Entity	
	2017 \$	2016 \$
<b>CURRENT</b>		
Trade payables	189,502	105,800
Sundry payables and accrued expenses	209,130	139,346
	<u>398,632</u>	<u>245,146</u>

The carrying values of trade payables, sundry and accrued payables are considered to be reasonable approximation of fair value.

## NOTE 15: PROVISIONS

		Consolidated Entity	
		2017	2016
		\$	\$
Current		400,865	214,078
Non-Current		351,590	453,311
		<u>752,455</u>	<u>667,389</u>
	Lease Make Good \$	Employee Benefits \$	Total \$
<b>Consolidated Group</b>			
Opening balance at 1 July 2016	200,000	467,389	667,389
Additional provisions	-	85,100	85,100
Amounts used	-	-	-
Balance at 30 June 2017	<u>200,000</u>	<u>552,489</u>	<u>752,489</u>

## NOTE 16: EMPLOYEE BENEFITS EXPENSE

		Consolidated Entity	
		2017	2016
		\$	\$
Wages, Salaries		2,538,458	2,394,363
Share-based payments		584,102	377,716
Superannuation		216,109	221,626
		<u>3,338,669</u>	<u>2,993,705</u>

## NOTE 17: ISSUED CAPITAL

		Consolidated Entity	
		2017	2016
		\$	\$
382,461,266 (2016: 354,225,508) fully paid ordinary shares		56,630,407	48,575,897
		<u>56,630,407</u>	<u>48,575,897</u>

The company has authorised share capital amounting to 382,461,266 ordinary shares.

(a)	Ordinary Shares	No.	\$
	At the beginning of reporting period	354,225,508	48,575,897
	Shares issued during the year		
—	28 July 2016	1,992,000	345,918
—	4 November 2016	15,625,000	5,000,000
—	2 December 2016	9,768,758	3,126,000
—	20 December 2016	850,000	195,500
	Share issue costs	-	(612,904)
	At reporting date	<u>382,461,266</u>	<u>56,630,407</u>



**NOTE 17: ISSUED CAPITAL (cont.)**

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

**(b) Options**

For information relating to the BluGlass Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, refer to Note 22 Share-based Payments.

**(c) Capital Management**

Management controls the capital of the consolidated entity in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's capital comprises ordinary share capital.

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since the prior year.

**NOTE 18: RESERVES****(a) Share based payments**

The reserve records items recognised as expenses on valuation of employee share options and shares. The company has elected to reclassify amounts representing expired options to accumulated losses.

**(b) Other Reserves**

This reserve is used to recognise the difference between purchase consideration paid and the non-controlling interest carrying value.

**NOTE 19: CAPITAL AND LEASING COMMITMENTS****Consolidated Entity**

2017	2016
\$	\$

**(a) Operating Lease Commitments:**

Non-cancellable operating lease contracted for but not capitalised in the financial statements

Payable - minimum lease payments

— not later than 12 months	233,972	200,000
— Between 12 months and 5 years	935,888	75,068
— greater than 5 years	136,484	-
	<u>1,306,344</u>	<u>275,068</u>

The lease was renewed for an additional term of five years from February 2018. The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the greater of CPI or 4.0% per annum. The lease does not allow for subletting of any lease areas.

## NOTE 20: OPERATING SEGMENTS

### (a) Business and geographical segments

The Group identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of research and development activities. The Group's operation has one main risk profile and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the product or service;
- the distribution method; and any external regulatory requirements

Applying the above criteria, the Group only has one operating division being the research and manufacture of Gallium Nitride (GaN).

The Group operates in one geographical area being in Australia. The Group did not undertake any new operations and it did not discontinue any of its existing operations during the year.

## NOTE 21: CASH FLOW INFORMATION

	Consolidated Entity	
	2017 \$	2016 \$
(a) <b>Reconciliation of Cash Flow from Operations with Loss after Income Tax</b>		
Loss after income tax	(3,660,557)	(3,427,566)
Non-cash flows in loss		
Depreciation expense	474,747	603,252
Share based payment	390,570	377,715
Other Non-cash items		-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and other receivables	(53,719)	(59,188)
(Increase)/decrease in other assets	16,117	(1,949)
(Increase)/decrease in consumables	(2,525)	(24,399)
Increase/(decrease) in trade and other payables and accruals	153,486	2,592
Increase in provisions	85,097	77,092
Cash flow from operations	(2,596,784)	(2,452,451)

**NOTE 22: SHARE-BASED PAYMENTS**

The following share-based payments existed at 30 June 2017:

	Consolidated Entity			
	2017		2016	
	Number of Options	Weighted Average Exercise Price \$	Number of Options	Weighted Average Exercise Price \$
Outstanding at the beginning of the year	9,512,000	0.01	5,891,666	0.01
Granted	2,100,000	0.36	7,520,000	0.01
Forfeited	-	-	-	-
Exercised	(2,842,000)	0.01	(3,899,666)	0.01
Expired	-	-	-	-
Outstanding at year-end	8,770,000	0.09	9,512,000	0.01
Exercisable at year-end	-	-	-	-

The options outstanding at 30 June 2017 had a weighted average exercise price of \$0.09 and a weighted average remaining contractual life of 1.3 years. (Option prices were \$0.01 in respect of options outstanding at 30 June 2016).

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits and expense in the income statement relating to share-based payment is \$584,102 (2016: \$377,716) and relates, in full, to equity-settled share-based payment transactions.

**NOTE 23: RELATED PARTY TRANSACTIONS**

	Consolidated Entity	
	2017 \$	2016 \$
The totals of remuneration paid to key management personnel of the group during the year are as follows:		
Short term employment benefits	1,016,627	903,166
Post-Employment benefits	99,541	100,262
Share-based payments	204,000	270,000
	1,320,168	1,273,428

Key Management Personnel have had no other transactions with the group during the year, and the group has no other related parties.

## NOTE 24: FINANCIAL RISK MANAGEMENT

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to a subsidiary and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

	Note	Consolidated Entity	
		2017	2016
<b>Financial Assets</b>		\$	\$
Cash and cash equivalents	7	8,510,931	3,409,700
Trade and other receivables	8	2,163,719	2,110,000
		<u>10,674,650</u>	<u>5,519,700</u>
<b>Financial Liabilities</b>			
Trade and other payables	14	398,632	245,146
		<u>398,632</u>	<u>245,146</u>

The Audit and Risk Committee (ARC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The ARC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The ARC meets regularly and minutes are reviewed by the Board.

The ARC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

### Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments is interest rate risk. Other risks include foreign currency risk, liquidity risk, credit risk, and commodity and equity price risk.

The maximum exposure to financial risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

#### (a) Credit Risk

The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated entity.

#### (b) Price Risk

The group has no exposure to commodity price risk.

**NOTE 24: FINANCIAL RISK MANAGEMENT (cont.)****(c) Liquidity Risk**

Liquidity risk is that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables significantly exceed the current cash outflow requirements.

As at 30 June 2017 the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

30 June 2017	Current		Non-Current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	\$	\$	\$	\$
Trade and other payables	398,632	-	-	-
Total	398,632	-	-	-

30 June 2016	Current		Non-Current	
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	\$	\$	\$	\$
Trade and other payables	245,146	-	-	-
Total	245,146	-	-	-

**NOTE 24: FINANCIAL RISK MANAGEMENT (cont.)****(d) Market Risk****(i) Foreign Exchange Risk**

The group does not have any material foreign exchange risk exposure to any single asset or liability or group of assets or liabilities under financial instruments entered into by the consolidated entity.

**(ii) Interest Rate Risk**

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets is as follows:

	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2017 \$	2017 %	2016 \$	2016 %
<b>Consolidated Entity</b>				
<b>Financial Assets:</b>				
Cash	587,446	1.0	104,080	1.0
Investments in term deposits and bank bills	7,923,485	2.1	3,305,620	2.1
<b>Total Financial Assets</b>	8,510,931		3,409,700	

All other financial assets and liabilities are non-interest bearing.

**(iii) Financial instrument composition and maturity analysis**

All trade and sundry payables are expected to be paid within the next 45 days.

**(iv) Net Fair Values**

All financial assets and liabilities at 30 June 2017 have maturities of less than 45 days and carrying value represents net fair value.

**(v) Sensitivity analysis**

The consolidated and parent entity do not have projected exposure to foreign currency risk or price risk and no material projected exposure to interest rate risk.

**NOTE 25: CONTINGENT LIABILITIES**

Contingent liabilities includes, the lease for 74 Asquith Street is supported by a CBA bank guarantee for \$138,100. Collateral for the bank guarantee is a set-off against cash invested with the CBA for \$138,100. The CBA also holds a Guarantee against the company credit cards of \$50,000.

**NOTE 26: EVENTS AFTER BALANCE SHEET DATE**

No significant events have occurred after balance sheet date.

**NOTE 27: BLUGLASS LTD PARENT COMPANY INFORMATION**

	2017	2016
	\$	\$
<b>Parent entity</b>		
<b>Assets</b>		
Current assets	10,860,889	5,619,530
Non-current assets	13,548,836	15,046,100
Total assets	24,409,725	20,665,630
<b>Liabilities</b>		
Current liabilities	609,994	660,815
Non-current liabilities	2,191,456	2,344,767
Total liabilities	3,344,168	3,005,612
Net Assets	21,065,557	17,660,018
<b>Equity</b>		
Issued capital	56,630,407	48,575,897
Accumulated Losses	(35,740,031)	(31,019,957)
Share based payments reserve	1,157,633	1,086,530
Other reserve	(982,452)	(982,452)
Total Equity	21,065,557	17,660,018
<b>Financial performance</b>		
Loss for the year	(4,720,074)	(3,427,566)
Other comprehensive income	-	-
Total comprehensive income	(4,720,074)	(3,427,566)

**NOTE 28: COMPANY DETAILS AND PRINCIPAL PLACE OF BUSINESS**

The registered office and principal place of business of the company is:

BLUGLASS LIMITED  
 74 ASQUITH STREET  
 SILVERWATER NSW 2128  
 Ph: +61 2 9334 2300

# DIRECTORS' DECLARATION

**1.** In the opinion of the directors of BluGlass Limited:

- a.** the consolidated financial statements and notes of BluGlass Limited are in accordance with the Corporations Act 2001, including
  - i** giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
  - ii** complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- b.** there are reasonable grounds to believe that BluGlass Limited will be able to pay its debts as and when they become due and payable.

**2.** The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.

**3.** Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:



William Johnson  
Chairman

Dated this 21<sup>st</sup> Day of August 2017



Giles Bourne  
Managing Director and Chief Executive Officer

Dated this 21<sup>st</sup> Day of August 2017



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W [www.grantthornton.com.au](http://www.grantthornton.com.au)

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BLUGLASS LIMITED

### REPORT ON THE AUDIT OF THE FINANCIAL REPORT

#### Opinion

We have audited the financial report of Bluglass Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

- a Giving a true and fair view of the Group's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
<p><b>Intangible asset impairment (Note 12)</b></p> <p>The Group has an intangible asset recorded on the Statement of Financial Position totalling \$8.6 million, relating to Intellectual Property (IP) associated with the acquisition of Gallium enterprise. The IP represents in process development relating to core technology which was recognised at cost of acquisition. The asset is not currently available for use.</p> <p>AASB 138: <i>Intangible Assets</i> sets out the specific requirements to be met in order to capitalise development costs. AASB 136: <i>Impairment of Assets</i> requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use.</p> <p>This area is a key audit matter due to the subjectivity and management judgement applied in the assessment of whether costs meet the development phase criteria described in AASB 138 and in relation to the impairment testing required by AASB 136.</p>	<p>Our procedures included; amongst others:</p> <ul style="list-style-type: none"> <li>evaluating managements processes to obtain and document an understanding of their process and controls to assess the risk of impairment;</li> <li>reviewed management's valuation of IP prepared by Management's external expert;</li> <li>assessed the competence and independence of Management's external expert;</li> <li>obtained from management available evidence to support the key assumptions within the model including performing sensitivity analysis on the key assumptions including discount rates and revenue model;</li> <li>tested the mathematical accuracy of the model;</li> <li>considered the reasonableness of the revenue and costs forecasts against current year actuals; and</li> <li>reviewing historical reliability of budgets and forecasts to support managements estimation process; and</li> <li>assessing the adequacy of the Group's disclosures.</li> </ul>
<p><b>Research and Development Rebate (Note 2)</b></p> <p>The Group accounts for the Research &amp; Development (R&amp;D) tax incentive as a Government Grant in accordance with AASB 120 <i>Accounting for Government Grants and Disclosure of Government Assistance</i>.</p> <p>An R&amp;D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive via a grant.</p> <p>This area is a key audit matter due to the inherent subjectivity that is involved in the Company making judgements in relation to the calculation and recognition of the R&amp;D tax incentive income and receivable.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>making enquiries with management to obtain and document an understanding of their process to calculate the R&amp;D tax incentive;</li> <li>comparing the methodology and nature of the expenditure included in the current year estimate to the prior period claim;</li> <li>comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger;</li> <li>inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims;</li> <li>reviewing historical reliability of estimates and budgets and changes in legislation to support the reliability of the estimate;</li> <li>determine the use and reliance of management's expert in preparation of the R&amp;D Return evaluated of the qualifications and expertise of the external specialist in order to assess their professional competence and capabilities as they relate to the work undertaken; and</li> <li>reviewing relevant disclosures in the financial statements.</li> </ul>

Share Based Payments (Note 22)	
<p>During the year, the Group granted 2,100,000 share based payments to employees and a service provider as part compensation for capital raising services provided. The share based payments will vest when certain technology hurdles are met.</p> <p>The Company engaged a valuation specialist during the current period to provide a valuation of these share-based payment using a Black-Scholes model.</p> <p>This area is key audit matter due to the inherent subjectivity involved in the Company making judgements relating to the key inputs and assumptions used to value the options, including historical volatility and the risk free rate of return.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>• tested the valuation of the share options by assessing the following input data: <ul style="list-style-type: none"> <li>▪ share price</li> <li>▪ strike price</li> <li>▪ dividend yield</li> <li>▪ risk free rate</li> <li>▪ volatility</li> <li>▪ grant date</li> <li>▪ vesting period</li> <li>▪ expiry date;</li> </ul> </li> <li>• performed a shadow calculation of the risk free rate at grant date, dividend yield and volatility to assess if the input data used by the Company was within a reasonable range;</li> <li>• verified the grant date to publicly available supporting data;</li> <li>• assessed attributes in respect of the valuation of the share options including the vesting conditions;</li> <li>• considered whether these attributes were appropriately included in the share option valuation model;</li> <li>• evaluated of the qualifications and expertise of the external specialist in order to assess their professional competence and capabilities as they relate to the work undertaken; and</li> <li>• assessing the adequacy of the Company's disclosures.</li> </ul>

### Information Other than the Financial Report and Auditor's Report Thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of the Directors 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* and for 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.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [www.auasb.gov.au/auditors\\_files/ar1.pdf](http://www.auasb.gov.au/auditors_files/ar1.pdf). This description forms part of our auditor's report.

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

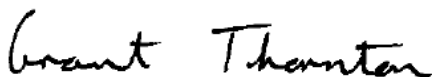
#### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 11 to 16 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Bluglass Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

#### **Responsibilities**

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.



GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants



G S Layland  
Director - Audit & Assurance

Sydney, 21 August 2017