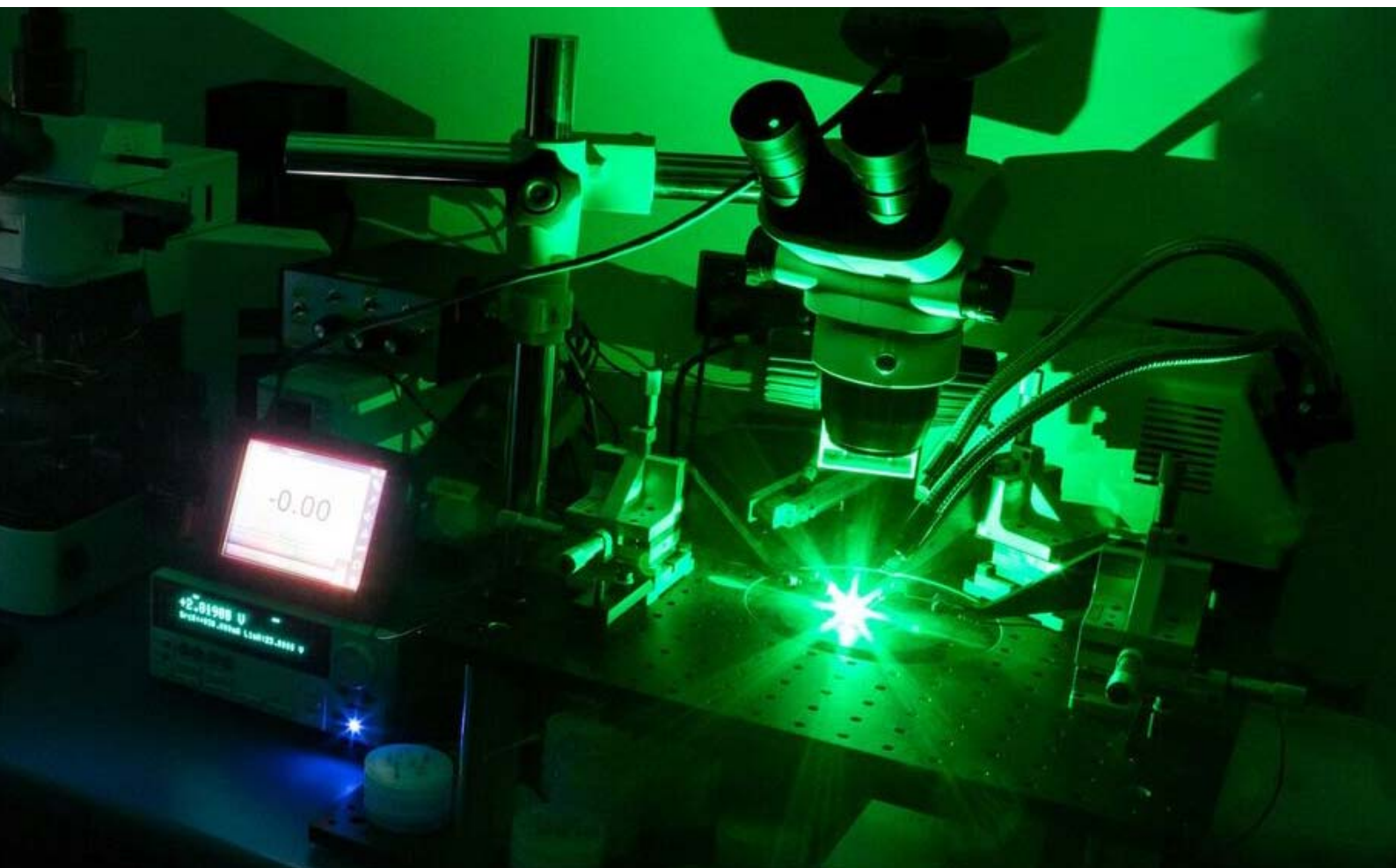


INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2017



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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the half-year ended 31 December 2017.

Directors

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

Mr Greg Cornelsen

Mr Chandra Kantamneni

Dr William Johnson

Mr Giles Bourne

Mr Vivek Rao

Mr James Walker (appointed 25 July 2017)

Principal Activities

The principal activity of the consolidated entity during the half year was the further development and commercialisation of novel technology for the manufacture of epitaxially grown gallium nitride at low temperature. BluGlass is also engaged in research activities in developing other high efficiency nitride devices.

All research and development activities are conducted in BluGlass Limited. There were no other significant changes in the nature of the consolidated entity's principal activities during the half year.

Operating Results

Revenue has increased by \$31,331 up 2.5% to \$1,291,910 due to the following factor:

- Foundry services income up 31.7% to \$268,149 (2016: \$203,468).

Gross expenditure has decreased by \$71,562, down 2.2% due to the following factors:

- Consulting fees down 42.8% to \$103,251 (2016: \$180,367).
- Patent and trademark expense down 48.2% to \$75,473 (2016: \$145,688)
- Depreciation expense down 59.8% to \$101,918 (2016: \$253,319)

The consolidated loss for the period amounted to \$1,959,535 down 5% (2016: \$2,062,428).

The company's net assets as at 31 December 2017 was \$16,965,785 (30 June 2017: \$18,701,811).

The Statement of Financial Position does not include a value for the increasing number of patents granted during the period since listing on the ASX in 2006 as all research and development costs are expensed as incurred and not capitalised.

Dividends Paid or Recommended

No dividends were paid or declared during the period.

REVIEW OF OPERATIONS

During the December 2017 Half Year BluGlass continued to advance the development and commercialisation of its proprietary RPCVD technology, successfully scaling the technology to larger wafer deposition with the commissioning of the upgraded BLG-300 deposition platform. The Company published its best material performance data to date, filed new patent applications, and continued to advance its strategic projects with our US and UK based partners.



Operational Update

Key achievements during the half year include:

- In July 2017, technology commercialisation expert James Walker joined the BluGlass Board of Directors as a Non-Executive Director. James brings a strong track record in successfully delivering cutting-edge technology into emerging markets.
- In August 2017, BluGlass successfully delivered a major hardware upgrade project to improve the uniformity and demonstrate the scalability of the RPCVD technology with the successful installation and commissioning of the upgraded BLG-300, the larger of the two RPCVD platforms.
- In September 2017, BluGlass announced that it had entered into a unique partnership with Griffith University and the Innovative Manufacturing Cooperative Research Centre (IMCRC). This two-year, \$600,000 co-funded research project combines two Australian enabling technologies - BluGlass' RPCVD technology and Griffith University's Atomically Smooth SiC on large Si (SiC on Si) wafers to develop the next-generation GaN transistors, called High Performance Normally OFF GaN High Electron Mobility Transistors (HEMT)s.
- Also in September 2017, the upgraded BLG-300 demonstrated good thickness uniformity over 2, 4 and 6-inch wafers suitable for BluGlass' commercial demonstrations.

At the time of this announcement, the improved chamber was already producing LED efficiency on par with previous best RPCVD results and with significantly improved performance uniformity. All of this is substantial progress for the company towards demonstrating that the scaling design from BLG-180 to the BLG-300 has worked successfully and this is anticipated to be applicable to larger RPCVD platforms.

This achievement also enabled the company to recommence collaborative efforts with Veeco Instruments and HC Semitek.

- In November, BluGlass published its best RPCVD performance data to date, presenting the new technical data at the invite-only Workshop for Ultra-Precision Processing for Wide Band-Gap Semiconductors (WUPP) in the USA. BluGlass was invited to present at the 5th International WUPP workshop, which gathers many of the leading groups and companies in the nitrides community to discuss various topics ranging from LEDs, Laser Diodes and power electronics. In the data BluGlass presented greater than 30% performance improvement in RPCVD p-GaN based green LEDs compared to BluGlass' MOCVD green LEDs measured at the wafer level.

- Also in November, BluGlass launched our custom epitaxial brand, EpiBlu Pty Ltd. The service business continues to provide a growing source of revenue for BluGlass, as well as a pipeline of future collaborators and customers. EpiBlu's service business is ultimately a valuable part of the commercialisation strategy of the RPCVD technology into a broad range of applications. We will continue to establish the EpiBlu brand and expand the business based on our growing reputation and positive results from existing customers. BluGlass and EpiBlu will be featured at a number of key industry events as speakers, exhibitors and sponsors over the coming year.

Partnerships Update

Lumileds Phase II of Exclusive Collaboration

BluGlass is working with leading US based LED company Lumileds, on a novel application of LEDs that capitalises on the unique low temperature advantages of RPCVD.

Much of BluGlass' effort during the half year was spent advancing the second phase of the exclusive collaboration with Lumileds, which is continuing to make good progress and further advance the capabilities and performance of our RPCVD technology.

Development has been slower than anticipated with the decommissioning of the old BLG-300 chamber at the start of the half year to install and commission the upgraded chamber and also by the extended turnaround timeframes of iterations between BluGlass and Lumileds in the US.

The new BLG-300 chamber is now positively contributing to this ongoing project. Both companies are also actively looking at ways to accelerate the turnaround time between development cycles.



IQE Collaboration for Electronics Applications

During the half year BluGlass has been collaborating with IQE, one of the world's leading semiconductor foundries and a global leader in the design and manufacture of advanced semiconductor wafer products. BluGlass and IQE are collaborating to develop a specific enabling technology for high quality nitride films deposited by RPCVD on both silicon wafers and on specially engineered substrates; cREO™ on silicon wafers.

This collaboration is ongoing and both companies remain committed to achieving the technology goals. Based on the previous work we completed with the cREO technology, we have been able to make quick initial gains in this project. As per the Lumileds collaboration, the IQE project is also being assisted with the new BLG-300 chamber.

Veeco Collaboration

Following the installation and commissioning of the upgraded BLG-300, BluGlass recommenced its evaluation with leading semiconductor equipment manufacturer Veeco Instruments.

At the Company's AGM in November, Veeco allowed us to share some of the p-GaN performance data for power electronics, which demonstrates the possibility of a lower temperature deposition technology to improve the performance of Off HEMTs for power electronics.

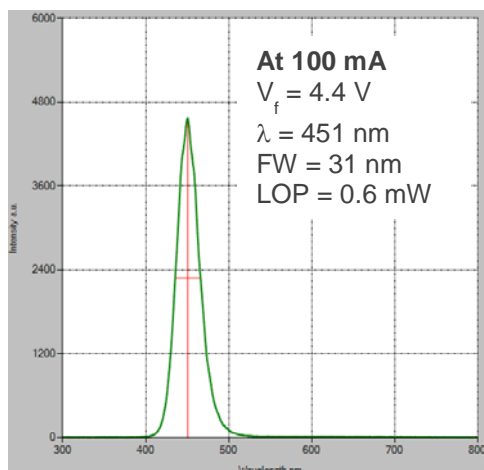
BluGlass and Veeco are actively exploring additional collaboration opportunities during 2018, capitalising on recent advancements with the RPCVD technology and scaling.

Performance Data Update

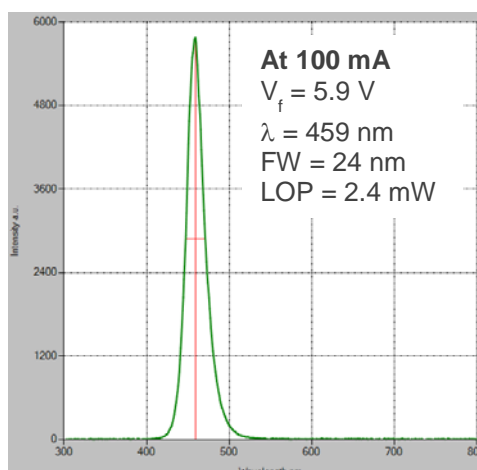
Since the company's AGM in November 2017, BluGlass has demonstrated a large improvement in RPCVD blue LED light output. In recent months BluGlass has placed initial development effort on the demonstration of RPCVD grown multi-quantum wells (MQW's), the active, light emitting layers of an LED and the most complex growth demonstration in the LED structure. MQW's are a key opportunity for performance improvement with lower temperature growth.

Our initial demonstrations are showing strong promise, and while not yet on par with MOCVD benchmarks (still early stage development), the RPCVD MQW performance is quickly improving as we continue to focus efforts on this aspect of the technology to help enable high performance RGB LEDs and microLEDs.

RPCVD MQW BASED LEDs November 2017



RPCVD MQW BASED LEDs February 2018



BluGlass has demonstrated a four fold improvement in RPCVD MQW's blue LED light output (LOP) since last the update in November 2017.

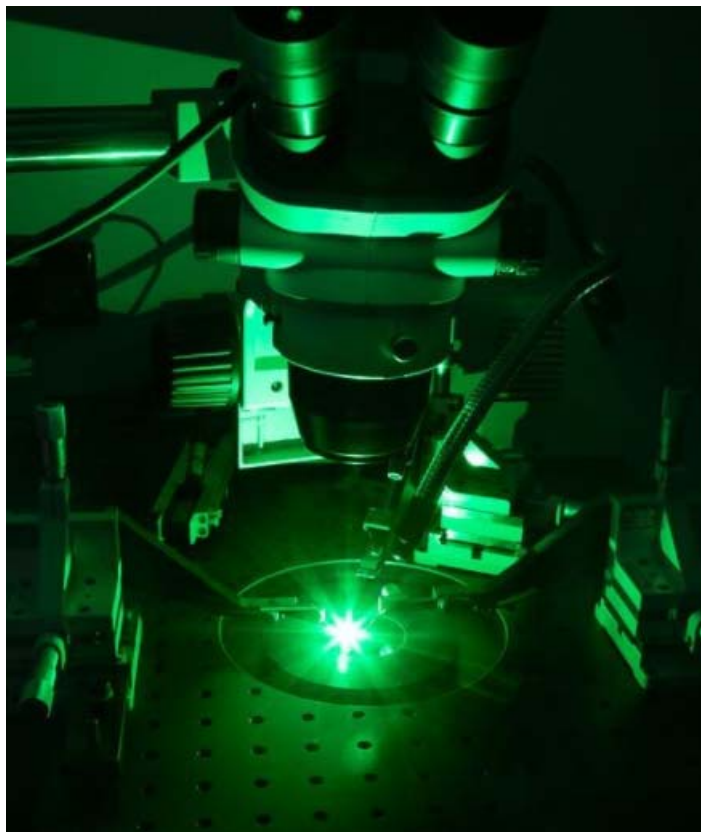
The Half Year Ahead:

As we head into the remaining half of the 2018 financial year, BluGlass will continue to deliver progress towards successful outcomes in our current industry partnerships. These discussions and collaborations are in different stages of development, but each one of them has significant market potential once fully realised.

Following the recent launch of our service brand, EpiBlu, we plan to grow this business during the remaining half year; while also working with potential future collaborators and customers of the RPCVD technology. To support this goal, we will develop a market presence at several international semiconductor conferences during the year as sponsors, speakers and exhibitors.

BluGlass will also continue to actively pursue new applications for its RPCVD technology such as micro-LEDs whereby the low temperature deposition process might lead to device performance improvements.

For the remaining half year BluGlass' goals remain unchanged. We are focused on the successful demonstration of the competitive advantages of our technology with our industry partners to ultimately enter commercial negotiations with one or more of our partners.



The BluGlass Board and Management look forward to delivering commercial outcomes for our shareholders and our breakthrough technology in the year ahead.

Director William Johnson

Handwritten signature of William Johnson in black ink.

Director Giles Bourne

Handwritten signature of Giles Bourne in black ink.

Dated this 13th day of February 2018

Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

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 review of BluGlass Limited for the half-year ended 31 December 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



P J Woodley
Partner – Audit & Assurance

Sydney, 13 February 2018

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Note	Consolidated Group	
		31.12.2017	31.12.2016
		\$	\$
Revenue		351,814	243,584
Other Income		940,096	1,016,995
Employee benefits expense		(1,314,668)	(1,352,667)
Professional fees		(110,999)	(115,245)
Board and secretarial fees		(137,457)	(145,006)
Corporate compliance & legal expenses		(139,179)	(60,827)
Consultant fees		(103,251)	(180,367)
Rent expense		(139,263)	(133,486)
Travel and accommodation expense		(90,103)	(42,961)
Engineering, consumable & repairs expense		(648,614)	(498,292)
Depreciation expense		(101,918)	(253,319)
Share based payment expense		(168,409)	(264,193)
Other expenses		(297,584)	(276,644)
Loss before income tax		(1,959,535)	(2,062,428)
Income tax expense		-	-
Loss for the period		(1,959,535)	(2,062,428)
Other comprehensive income		-	-
Total comprehensive loss attributable to members of the parent entity		(1,959,535)	(2,062,428)
Loss attributable to:			
-- members of the parent entity		(1,959,535)	(2,062,428)
		(1,959,535)	(2,062,428)
Total Comprehensive loss attributable			
-- members of the parent entity		(1,959,535)	(2,062,428)
		(1,959,535)	(2,062,428)
Earnings/(loss) per share			
Basic earnings/(loss) per share (cents per share)		(0.51)	(0.57)
Diluted earnings/(loss) per share (cents per share)		(0.51)	(0.57)

These financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Consolidated Group	
	31.12.2017	30.06.2017
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	7,755,012	8,510,931
Trade and other receivables	1,000,000	2,163,719
Consumables	91,164	103,843
Other current assets	118,479	43,205
TOTAL CURRENT ASSETS	8,964,655	10,821,698
Non-Current Assets		
Property, plant and equipment	265,130	336,200
Intangible assets	8,695,000	8,695,000
TOTAL NON-CURRENT ASSETS	8,960,130	9,031,200
TOTAL ASSETS	17,924,785	19,852,898
LIABILITIES		
Current Liabilities		
Trade and other payables	178,480	398,632
Short-term provisions	421,696	400,865
TOTAL CURRENT LIABILITIES	600,176	799,497
Non-current Liabilities		
Long-term provisions	358,824	351,590
TOTAL NON-CURRENT LIABILITIES	358,824	351,590
TOTAL LIABILITIES	959,000	1,151,087
NET ASSETS	16,965,785	18,701,811
EQUITY		
Issued capital	56,964,707	56,630,407
Reserves	(541,452)	175,181
Accumulated Losses	(39,457,470)	(38,103,777)
TOTAL EQUITY	16,965,785	18,701,811

These financial statements should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Issued Capital	Share based payments Reserve	Other Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2016	48,575,895	1,086,527	(982,452)	(34,443,220)	14,236,750
Total comprehensive loss for the period	-	-	-	(2,062,428)	(2,062,428)
Transactions with owners in their capacity as owners:					
Share options issued	8,126,000	-	-	-	8,126,000
Share Transaction costs during this year	(426,117)	-	-	-	(426,117)
Share options issued	-	274,405	-	-	274,405
Exercise of share options	541,416	512,996			28,420
Dividends paid or provided for	-	-	-	-	-
Balance at 31 December 2016	56,817,194	847,936	(982,452)	(36,505,653)	20,177,030
Balance at 1 July 2017	56,630,507	1,157,633	(982,452)	(38,103,777)	18,701,911
Total comprehensive loss for the period	-	-	-	(1,959,535)	(1,959,535)
Transactions with owners in their capacity as owners:					
Shares issued during the year	-	-	-	-	-
Share options issued	-	168,409	-	-	168,409
Exercise of share options	334,200	(279,200)	-	-	55,000
Transfer to reserve	-	(605,842)	-	605,842	-
Dividends paid or provided for	-	-	-	-	-
Balance at 31 December 2017	56,964,707	441,000	(982,452)	(39,457,470)	16,965,785

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2017**

	Consolidated Group	
	31.12.2017	31.12.2016
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest & other income received	1,291,910	1,260,579
Payments to suppliers and employees	(2,073,832)	(1,833,953)
Net cash used in operating activities	(781,922)	(573,374)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(30,847)	(8,726)
Net cash used in investing activities	(30,847)	(8,726)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares net of transaction costs	-	7,718,595
Proceeds from options exercised	56,850	-
Net cash provided by financing activities	7,718,595	7,718,595
Net (decrease)/increase in cash held	(755,919)	7,136,495
Cash and cash equivalents at beginning of period	8,510,931	3,409,700
Cash and cash equivalents at end of period	7,755,012	10,546,195

These financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017**Note 1: Nature of Operation**

The principal activity of the consolidated entity during the half year was the further development and commercialisation of novel technology for the manufacture of epitaxially grown gallium nitride at low temperature. BluGlass is also engaged in research activities in developing a high efficiency nitride solar cell prototype.

Note 2: Basis of Preparation

These general purpose financial statements for the half-year reporting period ended 31 December 2017 have been prepared in accordance with requirements of the *Corporations Act 2001* and AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial reporting standard IAS34 Interim Financial Reporting. The group is a for profit entity for financial reporting purposes under Australian Accounting standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of BluGlass Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial report of the Group for the year ended 30 June 2017, together with any public announcements made during the half-year.

The same accounting policies and methods of computation have been followed in this interim financial report as were applied in the most recent annual financial statements, except in relation to the matters discussed below.

Significant Accounting Policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2017.

The financial statements of BluGlass Limited for the half year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 13 February 2017.

Going Concern

Notwithstanding the accumulated losses for the company and the consolidated entity, the directors have performed a review of the cash flow forecasts and have considered the cash flow needs of the company and consolidated entity. The directors have prepared the financial statements on a going concern basis, as the directors have a number of strategies in progress to generate revenues from operations and maintain the company in a cashflow positive position.

Note 3: Loss for the Period

	Consolidated Group	
	31.12.2017	31.12.2016
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Foundry Revenue	268,149	203,468
R&D Tax rebate	1,000,000	1,000,000
Interest Income	23,761	57,111
	<u>1,291,910</u>	<u>1,260,579</u>

Note 4: Dividends

There were no dividends paid or declared during the period.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2017**Note 5: Operating Segments**

The consolidated group operates and reports in one business and geographic segment.

Note 6: Losses Per Share

Both the basic and diluted losses per share have been calculated using the losses attributable to shareholders of the Parent Company (BluGlass Limited) as the numerator, i.e. no adjustments to losses were necessary during the six (6) month period to 31 December 2017 and 2016.

The weighted average number of shares for the purposes of the calculation of diluted losses per share can be reconciled to the weighted average number of ordinary shares used in the calculation of basic losses per share as follows:

	6 months to 31-Dec-2017	6 months to 31-Dec-2016
Weighted average number of shares used in basic earnings per share	384,054,162	362,389,557
Weighted average number of shares used in diluted earnings per share	384,054,162	362,389,557

Note 7: Share Capital

	6 months to 31 December 2017	Year to 30 June 2017
Shares issued and fully paid		
Beginning of the period	382,461,266	354,225,508
Issued under share-based payment plans	5,500,000	2,842,000
Shares issued	-	25,393,758
Shares issued and fully paid	387,961,266	382,461,266
Shares authorised for share based payments	5,270,000	8,770,000
Total shares authorised at the end of the period	393,231,266	391,231,266

Note 8: Contingent liabilities

There has been no change in contingent liabilities since the last annual reporting date.

Note 9: Events subsequent to reporting date

There were no events subsequent to reporting date.

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes as set out on pages 9 to 14 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards AASB 134 Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2017 and of the performance for the half year ended on that date.
2. in the directors' opinion, there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

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



Director **William Johnson**



Managing Director **Giles Bourne**

Dated this 13th day of February 2018



Level 17, 383 Kent Street
Sydney NSW 2000

Correspondence to:
Locked Bag Q800
QVB Post Office
Sydney NSW 1230

T +61 2 8297 2400
F +61 2 9299 4445
E info.nsw@au.gt.com
W www.grantthornton.com.au

Independent Auditor's Review Report To the Members of BluGlass Limited

Report on the Half Year Financial Report

Conclusion

We have reviewed the accompanying half year financial report of Bluglass Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2017, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of BluGlass Limited does not give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the Corporations Act 2001, including complying with Accounting Standard AASB 134 Interim Financial reporting.

Directors Responsibility for the Half Year Financial Report

The Directors of the Group are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in

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order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of BluGlass Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants



P J Woodley
Partner - Audit & Assurance

Sydney, 13 February 2018