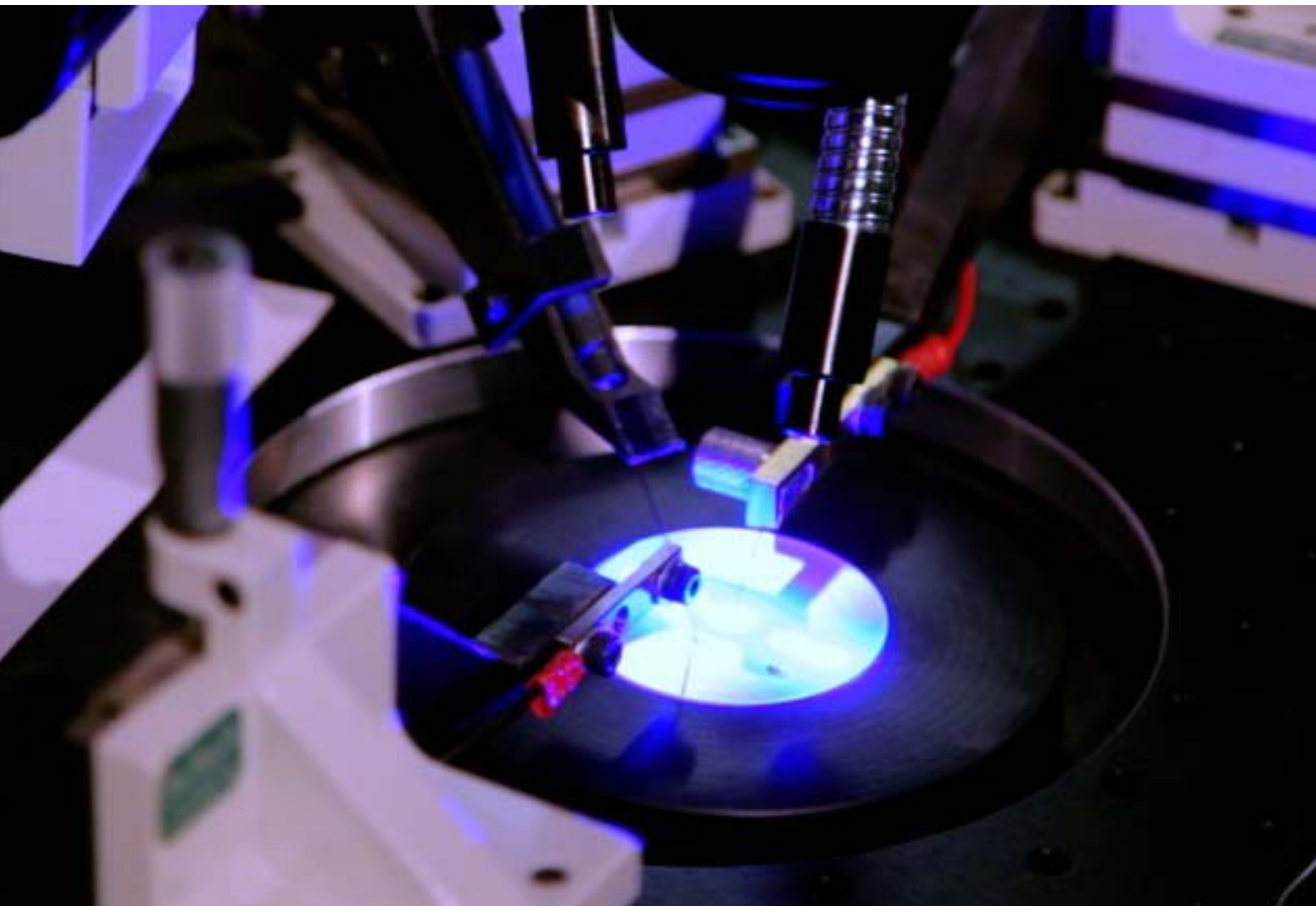


INTERIM FINANCIAL REPORT FOR THE HALF YEAR ENDED 31 DECEMBER 2016



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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 2016.

Directors

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

Mr George Venardos (Resigned 22 November 2016)

Mr Greg Cornelsen

Mr Chandra Kantamneni

Dr William Johnson

Mr Giles Bourne

Mr Vivek Rao (Appointed 22 November 2016)

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 decreased by \$198,367 down 13.6% to \$1,260,579 due to the following factors:

- No Commonwealth government grants (2015: \$192,479).

Gross expenditure has increased by \$106,089, up 3.3% due to the following factors:

- Employee benefits expense up 7.7% to \$1,352,667 (2015: \$1,255,294).
- Patent and trademark expense up 116% to \$145,688 (2015: \$67,270)

The consolidated loss for the period amounted to \$2,062,428 up 17.3% (2015: \$1,757,972).

The company's net assets as at 31 December 2016 was \$20,177,030 (30 June 2016: \$14,236,750).

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

The first half of the 2017 Financial Year has seen BluGlass achieve a number of key technical and commercial milestones that have brought the company closer to its commercialisation goals:

Half Year Highlights:

- In September 2016, BluGlass announced that it had commissioned its upgraded RPCVD chamber (the smaller of BluGlass' two RPCVD systems) designed to help address the scalability and uniformity of RPCVD that is required for commercial demonstrations. The upgraded chamber was designed to build on and improve on past performance data as well as create a platform RPCVD design that can be easily scaled to larger deposition areas. Subsequent to this, at the BluGlass AGM in November, we were able to show good initial thickness uniformity improvement demonstrated by this new deposition chamber. Since the AGM, BluGlass has made further improvements with the thickness uniformity to a level that satisfy our requirements for industry demonstrations for 2" wafers.
- In 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 a number of technical milestones of Phase I of the Lumileds exclusive evaluation. The successful demonstration of these milestones has broken exciting new ground for 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 Lumileds LED applications.

- Also in October, BluGlass raised \$5m in an institutional placement to support the Companies three existing evaluation and collaboration agreements, and to enable BluGlass to explore additional strategic industry discussions and opportunities.
- 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.

Dr. Johnson is a seasoned CEO and Director with extensive business development, M&A, IP commercialisation and successful hands-on leadership roles in operations ranging from high technology start-ups, to Fortune 500 high technology companies. He was the former President and Chief Executive Officer of SPTS Technologies, a manufacturer of capital equipment for the semiconductor and related industries.

- In November, the Company announced that it has received a significant order commitment from a new customer for ~\$600,000 of specialist epitaxy (foundry) development. This order is scheduled to be delivered over a 12-month period.

This UK based customer is developing gallium nitride (GaN) technology targeting LED and other applications. BluGlass having fulfilled a small order for this customer have secured this \$600K order commitment, which will be developing a new innovative project.

BluGlass has placed additional emphasis on growing its Foundry Customer business in Financial Year 2017. The foundry business continues to introduce BluGlass to new and emerging applications including novel LED, micro-LED, laser diode and power electronic applications.

BluGlass selects foundry customers at the cutting edge of innovation, with the potential to become the future of the nitrides industry, especially those that could benefit from a market enabling low temperature RPCVD

technology.

- In November, BluGlass announced that it has entered into a formal Collaboration Agreement with IQE (AIM: IQE), 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 used by major global chip companies to produce high performance components that enable a wide range of high-tech applications including for the wireless industry, such as smartphone and wireless infrastructure, Wi-Fi, base stations, GPS, and satellite communications; optical communications and optical storage.

BluGlass and IQE are collaborating 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 substrates; cREO™ on silicon.

At the time of the announcement, IQE Group's Vice President, Dr. Rodney Pelzel said "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. This arrangement marks another key milestone for IQE as it continues to provide market leading solutions to its customers."

BluGlass is delighted to have formed a strategic partnership with IQE, who we have chosen to work with based on the enormous market potential and impact that the applications that we will be co-developing could have on the semiconductor industry in the future.

- In December 2016, BluGlass completed its Share Purchase Plan which raised \$3.1m. This combined with the October \$5m Institutional Placement has put BluGlass in a strong financial position to execute its commercialisation plans.

The Half Year Ahead:

The BLG-180 chamber has demonstrated improvement in thickness uniformity and based on this design, the new and larger chamber for the BLG-300 was built to improve uniformity and address scaling of the RPCVD technology. The new chamber has recently arrived at BluGlass and is being prepared for installation.

The BluGlass technology team are finalising the plans for its installation onto the larger RPCVD system, to ensure minimal disruption to BluGlass' partner evaluations, in particular the Lumileds Phase II project. While BluGlass continues to make steady progress on the Phase II of the Lumileds project it is anticipated that the new BLG-300 chamber design will help with the technical performance for the Lumileds project beyond simply scaling aspects and we are assessing options for its implementation to assist with the Lumileds milestones and timelines. The BLG-300 scaling is critical for our other industry projects such as IQE, Veeco and HC Semitek to progress on commercial size wafers.

BluGlass continues to explore new strategic opportunities, including collaborations, partnerships and expanding the foundry business within the opto-electronic value chain.

As we head into the remaining half of the 2017 financial year, we continue to make progress towards delivering successful outcomes in our current industry partnerships. These discussions and collaborations are in different stages of development, but each one of them has large market potential once fully realised.

The BluGlass Board and Management looks forward to keeping you up to date over the coming months as we take our cutting edge technology to market.



Director William Johnson



Director Giles Bourne

Dated this 13th day of February 2017

Level 17, 383 Kent Street
Sydney NSW 2000

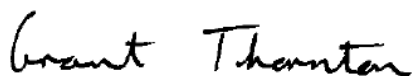
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Auditor's Independence Declaration To The Directors of BluGlass Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of BluGlass Limited for the half-year ended 31 December 2016, 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 AUDIT PTY LTD
Chartered Accountants



G S Layland
Director – Audit & Assurance

Sydney, 13 February 2017

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

	Note	Consolidated Group	
		31.12.2016	31.12.2015
		\$	\$
Revenue		1,016,995	1,291,804
Other Income		243,584	167,142
Employee benefits expense		(1,352,667)	(1,255,294)
Professional fees		(115,245)	(95,151)
Board and secretarial fees		(145,006)	(157,634)
Corporate compliance & legal expenses		(60,827)	(37,891)
Consultant fees		(180,367)	(221,292)
Rent expense		(133,486)	(129,160)
Travel and accommodation expense		(42,961)	(37,210)
Engineering, consumable & repairs expense		(418,774)	(414,322)
Depreciation expense		(253,319)	(340,750)
Share based payment expense		(264,193)	(260,266)
Other expenses		(356,162)	(267,948)
Loss before income tax		(2,062,428)	(1,757,972)
Income tax expense		-	-
Loss for the period		(2,062,428)	(1,757,972)
Other comprehensive income		-	-
Total comprehensive loss attributable to members of the parent entity		(2,062,428)	(1,757,972)
Loss attributable to:			
-- members of the parent entity		(2,062,428)	(1,757,972)
		(2,062,428)	(1,757,972)
Total Comprehensive loss attributable			
-- members of the parent entity		(2,062,428)	(1,757,972)
		(2,062,428)	(1,757,972)
Earnings/(loss) per share			
Basic earnings/(loss) per share (cents per share)		(0.57)	(0.55)
Diluted earnings/(loss) per share (cents per share)		(0.57)	(0.55)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Consolidated Group	
	31.12.2016	30.06.2016
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	10,546,195	3,409,700
Trade and other receivables	1,000,000	2,110,000
Consumables	112,414	101,318
Other current assets	185,326	59,322
TOTAL CURRENT ASSETS	11,843,935	5,680,340
Non-Current Assets		
Property, plant and equipment	529,353	773,945
Intangible assets	8,695,000	8,695,000
TOTAL NON-CURRENT ASSETS	9,224,353	9,468,945
TOTAL ASSETS	21,068,288	15,149,285
LIABILITIES		
Current Liabilities		
Trade and other payables	104,197	245,146
Short-term provisions	287,829	214,078
TOTAL CURRENT LIABILITIES	392,026	459,224
Non-current Liabilities		
Long-term provisions	499,232	453,311
TOTAL NON-CURRENT LIABILITIES	499,232	453,311
TOTAL LIABILITIES	891,258	912,535
NET ASSETS	20,177,030	14,236,750
EQUITY		
Issued capital	56,817,194	48,575,895
Reserves	(134,516)	104,075
Accumulated Losses	(36,505,648)	(34,443,220)
TOTAL EQUITY	20,177,030	13,952,385

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 2016**

	Issued Capital	Share based payments Reserve	Other Reserve	Accumulated Losses	Total
	\$	\$	\$	\$	\$
Balance at 1 July 2015	44,519,279	1,431,212	(982,452)	(31,015,654)	13,952,385
Total comprehensive loss for the period	-	-	-	(1,757,972)	(1,757,972)
Transactions with owners in their capacity as owners:					
Share options issued	514,987	-	-	-	514,987
Share Transaction costs during this year	(41,683)	-	-	-	(41,683)
Share options issued	-	260,266	-	-	260,266
Dividends paid or provided for	-	-	-	-	-
Balance at 31 December 2015	44,992,583	1,691,478	(982,452)	(32,773,626)	12,927,983
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:					
Shares issued during the year	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)	(36,505,648)	20,177,030

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

	Consolidated Group	
	31.12.2016	31.12.2015
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grants	-	192,479
Interest & other income received	1,260,579	1,266,467
Payments to suppliers and employees	(1,833,953)	(1,663,489)
Net cash provided (used) by in operating activities	(573,374)	(204,543)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,726)	(913)
Net cash (used) in investing activities	(8,726)	(913)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares net of transaction costs	7,718,595	473,304
Net cash provided by financing activities	7,718,595	473,304
Net (decrease)/increase in cash held	7,136,495	267,848
Cash and cash equivalents at beginning of period	3,409,700	2,528,849
Cash and cash equivalents at end of period	10,546,195	2,796,697

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2016**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 2016 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 2016, 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 2016.

The financial statements of BluGlass Limited for the half year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 13 February 2016.

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	
	31.12.2016	31.12.2015
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Grant revenue	-	192,479
Foundry Revenue	203,468	138,222
R&D Tax rebate	1,000,000	1,000,000
	<u>1,203,468</u>	<u>1,330,701</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 2016**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 2016 and 2015.

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-2016 \$'000s	6 months to 31-Dec-2015 \$'000s
Weighted average number of shares used in basic earnings per share	362,389,557	322,255,579
Weighted average number of shares used in diluted earnings per share	362,389,557	322,255,579

Note 7: Contingent liabilities

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

Note 8: 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 7 to 12 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 2016 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**

Dated this 13th day of February 2017



Managing Director **Giles Bourne**

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

We have reviewed the accompanying half-year financial report of BluGlass Limited (the Company), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year's end or from time to time during the half-year.

Directors' Responsibility for the Half-year Financial Report

The Directors of BluGlass Limited 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 controls as the Directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in 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 BluGlass Limited consolidated entity's financial position as at 31 December 2016 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.

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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.

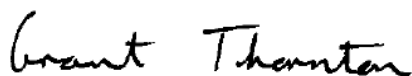
Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of BluGlass Limited is not in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



G S Layland
Partner - Audit & Assurance

Sydney, 13 February 2017