

BLUGLASS LIMITED and CONTROLLED ENTITIES

ABN 20 116 825 793

Financial Statements for the Year Ended
30 June 2015

**BRIGHTER
FUTURE LOWER
TEMPERATURE**

CONTENTS

Page

| | |
|-------------------------------------------------------------------------|----|
| Directors' Report | 03 |
| Information on Directors | 08 |
| Remuneration Report | 10 |
| Directors Report cont. | 16 |
| Auditor's Independence Declaration | 19 |
| Financial Statements | 20 |
| Consolidated Statement of Profit or Loss and Other Comprehensive Income | 20 |
| Consolidated Statement of Financial Position | 21 |
| Consolidated Statement in Changes in Equity | 22 |
| Consolidated Statement of Cash Flow | 23 |
| Notes to the Consolidated Financial Statements | 24 |
| Directors' Declaration | 46 |
| Independent Auditor's Report | 47 |

DIRECTORS' REPORT

Your directors present their report on BluGlass Limited and its controlled entities ("the Group") for the financial year ended 30 June 2015.

DIRECTORS

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

Mr George Venardos

Mr Gregory Cornelsen

Mr Chandra Kantamneni

Dr William Johnson

Mr Giles Bourne (from 1 September 2014)

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 consolidated entity or "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 2015 Financial Year has seen BluGlass achieve some important technical and commercial progress with the demonstration of RPCVD performance data that has directly led to industry interest from a leading equipment company, along with RPCVD foundry revenue. The RPCVD technology continues to make breakthroughs which are expected to enable further engagement with the industry over the coming year.

The Board has also previously communicated that the Company is currently at an early stage of discussions with respect to a number of potential strategic transactions. Should any of these discussions lead to terms being agreed, the Board will advise shareholders of the proposed terms at that time.

In Summary the key achievements during the period were:

✦ In July 2014, the Company successfully demonstrated p-GaN light output using RPCVD on an MOCVD partial LED structure with more than a 10 fold improvement in LED efficiency over the first p-GaN demonstration by the Company in December 2012. This initial major performance increase was achieved by improving the interface between multi-quantum wells (MQWs), the critical light emitting region of an LED device, and the overgrown p-GaN

✦ In August 2014, the Company announced that it had successfully retrofitted and commissioned an ex-production 19x2 inch system (Thomas Swan) that is now referred to as BLG-300. The system will enable evaluation of the RPCVD process on a larger scale and will help to demonstrate GaN growth on silicon wafers where the current industry standard, MOCVD, has production constraints. The Company has now also demonstrated that the RPCVD technology can be applied to both of the two major MOCVD equipment platforms



✦ In October 2014, BluGlass was ranked in the Global Top 30 Cleantech Companies in the Global Cleantech Cluster Association (GCCA) Later Stage Awards. The prestigious Top 30 is selected from hundreds of global entrants and consists of mid-to-late stage companies that originate from a variety of cleantech industries and have a proven track record in their home market, with the goal to expand internationally

✦ In November 2014, BluGlass received its first order for a trial of RPCVD. The RPCVD customer is developing a unique GaN on silicon application for power electronics where a lower temperature process has the potential to be highly advantageous. BluGlass will also continue to provide MOCVD foundry work for this customer

✦ Also in November 2014, BluGlass appointed an expert custom epitaxy (foundry) agent, xVI Technologies, for its MOCVD custom epitaxy service. xVI Technologies is a U.S. based full service provider of optoelectronic and semiconductor integrated solutions

✦ In February 2015, the Company provided the industry with data showing RPCVD p-GaN grown on MOCVD partial LED structures was approaching the performance benchmark of full MOCVD LEDs grown in-house by BluGlass. The Company has also shown that its BLG-300 system can achieve performance for p-GaN equal to its earlier prototype, the BLG-180.



✦ In March 2015, BluGlass was one of a number of sponsors of the Compound Semiconductor International Conference, in Frankfurt Germany. BluGlass held a trade stand marketing the RPCVD platform, latest performance data and promoting the custom epitaxy foundry business in association with our international epitaxy agent, xVI Technologies

✦ Also in March 2015, BluGlass presented at Semicon China's LEDs Conference highlighting the benefits of Remote Plasma Chemical Vapour Deposition and low temperature growth for the manufacture of LEDs

REVIEW OF OPERATIONS (CONT)

✴ In April 2015, BluGlass entered into an agreement with Veeco Instruments Inc (NASDAQ: VECO) to evaluate low temperature RPCVD p-GaN for use in both green LEDs and GaN on silicon for power electronic applications. The approach uses RPCVD technology to complement Veeco's MOCVD technology as RPCVD p-GaN is grown on top of the MOCVD grown partial LED and HEMT (power electronic) structures. Veeco will be looking to see how well the low temperature p-GaN can improve the performance of green LEDs. Additionally they wish to assess the suitability of RPCVD technology for power electronic devices.

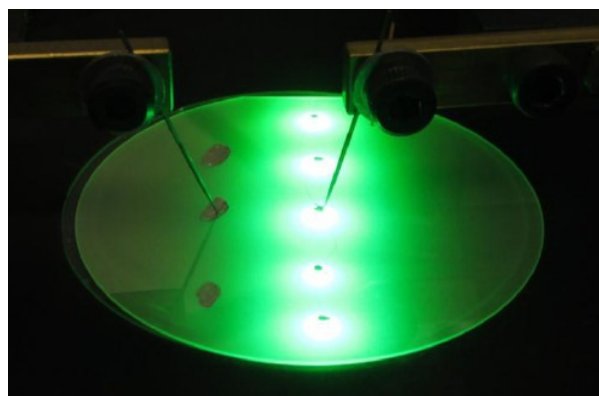
✴ In May 2015, BluGlass conducted a Share Purchase Plan for existing shareholders. The SPP successfully raised \$1.96M for the Company to continue its operations and execute on the commercialisation strategy

✴ Also in May 2015, the Company demonstrated that it had succeeded in its initial experimentation of applying low temperature RPCVD p-GaN to Green LED applications. These results show that the green LEDs produced using RPCVD p-GaN are demonstrating greater efficiency than the first BluGlass grown attempts of MOCVD green LEDs using the exact same MOCVD grown MQWs

✴ In June 2015, BluGlass shipped its first RPCVD foundry customer order for green LEDs after having demonstrated the potential to improve device performance of green LEDs. This trial will result in additional foundry revenue

✴ In July 2015, SPP Technologies Co., Ltd. ("SPT"), a subsidiary of Sumitomo Precision Products Co. Ltd of Japan (TSE: 6355); informed BluGlass that it had acquired from SPTS Technologies UK Limited ("SPTS") various assets including SPTS' 17.94% stake in BluGlass. SPTS acquired its shares in BluGlass in a strategic investment in August 2010, and at that time it was also a fully owned subsidiary of Sumitomo Precision Products

✴ As a result of further progress with the RPCVD technology the Company, as at the date of this report, now holds 39 granted patents and 20 applications in 7 patent families compared to the 29 patents held at the end of June 2014



BluGlass gives the green light: Light emission from RPCVD p-GaN layers grown on MOCVD MQWs.

APPLICATIONS and MARKETS UPDATE

BluGlass' strategy is to supply advanced GaN deposition technology by initially focussing on the demonstration of the RPCVD advantages for various applications (driven by market needs) and subsequently engaging with the device and semiconductor equipment manufacturers for LEDs (covering high brightness, UV, green and yellow LEDs), solar and power electronics.

The top three MOCVD makers in the world, which account for 97% of the market share in 2013, are Veeco (USA), Aixtron (Germany), and Taiyo Nippon Sanso (Japan). While Taiyo's market share (5 – 6%) is far less than that of the other two, it possesses 70-80% of the market in Japan, making it the largest MOCVD equipment maker in Japan.

According to Big Market Research's new report, *LED Lighting Shares Strategies and Forecasts Worldwide 2015-2020 Market*; The LED market is continuing to meet growth expectations with LED lighting sales soon expected to outpace and eventually completely eliminate incandescent bulbs in North America. The LED lighting market is anticipated to grow 45% per year through 2020. LED lights at \$13.6 billion in 2014, are anticipated to reach \$63.1 billion by 2020.

Big Market Research also predicts market shifts provide entry points for new competitors. They create significant opportunities for participants to achieve rapid increase in market share. Shifts in market share are anticipated as vendors move up the value chain to increase returns on investment.

REVIEW OF OPERATIONS (CONT)

The Power Electronics market also presents a growing opportunity for the RPCVD technology. According to Yole Developpement, in their Power GaN Report (June 2014), the GaN power industry is consolidating in preparation for significant growth, with an estimated 80% CAGR from 2016 through to 2020. Overall, 2020 could see an estimated device market size of almost \$600M, leading to approximately 580,000 x 6" wafers to be processed. Yole also predict that ramp-up will be quite impressive starting in 2016.

All of this means that the market opportunity for RPCVD continues to expand in multiple segments whereby the advantages of the low temperature deposition technology could play a significant role. Also new and significant markets continue to emerge such as GaN for power electronics along with alternative LED markets for applications such as UV LED, green and yellow LEDs.

The immediate goal for the Company is to continue to improve on recent technology results and steer the Company towards industry acceptance. The objective is to fulfil the longer term goals, namely commercialising the technology via RPCVD foundry applications, licencing, partnership (JV / JDA) or by retrofitting existing MOCVD systems. BluGlass will continue to review all options for the commercialisation of its RPCVD technology.

FINANCIAL SUMMARY

The consolidated loss for the period increased to \$3,183,256 (2014: \$2,898,435).

The net assets of the consolidated entity decreased by \$847,270 to \$13,952,385 (2014: \$14,799,655) due to the level of research and development expenditure incurred during the period

Revenue has decreased by \$579,815 down 14.0% to \$3,532,959. Material variations in revenue received are as follows:

- Accrual of 2014/15 R&D tax rebate of \$2,000,000 as compared to the receipt and accrual of rebates in FY 2014 of \$2,200,000.
- Receipt of \$1,235,954 from the Clean Technology Innovation Grant which commenced on the 1st of July 2014. Grant receipts in 2014 from the Commonwealth Climate Ready Grant Programme were \$1,430,954.
- Receipt of revenue for the provision of foundry services to third parties of \$276,825 was received this year compared to \$334,418 in the 2014 financial year.

Gross expenditure has decreased by \$304,307, down 4.3% to \$6,706,872 due to the following factors:

- Decrease in research and development consumables due to the consumption of consumables buildup from the previous financial year
- Salaries and wages decreased by \$95,590 down 3.8% (2014: \$2,484,263) due to no performance based payments being made during the financial year

Net cash required for operational expenses, and capital expenditure averaged \$143,993 per month, (2014: \$262,053). The decrease is mainly due to the limited capital expenditure on research equipment.

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 2015 or 2014.

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 PV markets in order to maximise shareholder return.

BluGlass will continue to advance and validate the RPCVD technology as the Company works towards its industry acceptance goals in order to take the RPCVD technology to market.

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 strict compliance with relevant regulatory environmental, health and safety codes, as do all facility emissions.

The company has in place strict 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 safety or environmental incidents during the course of the financial year.

INFORMATION ON DIRECTORS

MR. GEORGE VENARDOS

Non Executive Chairman

BCom, FCA, FTI, FAICD, FGIA

Current Listed ASX Directorships:

Non Executive Director – Ardent Leisure Group
Non Executive Director – IOOF Holdings Limited

Former ASX Directorships: (last 3 years)

Non Executive Director – Miclyn Express Offshore Limited

Special Responsibilities

Risk and Audit Committee member, Remuneration and Nominations Committee member

Experience and Expertise

George is a non-executive director with broad listed company experience across a range of different industries. He has more than 30 years experience in the Insurance and Financial Services sector and was formally Group Chief Financial Officer of Insurance Australia Group Limited; Chief Financial Officer, Legal and General Australia; and Chairman of the Insurance Council of Australia Finance and Accounting Committee.

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.

DR. WILLIAM JOHNSON

Non Executive Director

BS-Phy, MS-EE, PhD,

Former Directorships (last 3 years)

President and CEO SPTS Pty Ltd

Special Responsibilities

Remuneration and Nominations 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.

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. CHANDRA KANTAMNENI**Non Executive Director** *MSc, MS, MBA***Former Directorships in last 3 years:**

None

Special Responsibilities

Risk and Audit 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 CORNELSON**Non Executive Director** *BEC***Current Directorships:**

MOV Corporation Limited

Former Directorships in last 3 years:

Welcome Stranger Mining Limited
 Arasor International Limited
 EHG Corporation Limited
 AAT Corporation Ltd

Special Responsibilities:

Remuneration and Nominations Committee Chairman, Risk and Audit 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.

COMPANY SECRETARY

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

Mr Emmanuel Correia

Mr 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.

REMUNERATION REPORT 2014- 2015

INTRODUCTION

The Directors of BluGlass Limited present the Remuneration Report for the Company and its controlled entities for the year ended 30 June 2015. 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 | |
|-------------------------|----------|----------------|-----------------------------------------------|
| George Venardos | Chairman | Giles Bourne | Managing Director and Chief Executive Officer |
| Gregory Cornelsen | Director | Ian Mann | Chief Technology Officer |
| Chandra Kantamneni | Director | Stuart Uhlhorn | Chief Financial Officer |
| William Johnson | Director | | |

During the period the Remuneration and Nominations Committee comprised 3 independent directors - Greg Cornelsen (Committee Chairman), William Johnson and George Venardos. 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 modest 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 recognising that as a pre-revenue research and development company it has limited ability to pay competitive base cash salaries and short term cash incentives. 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 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.

| | | SHORT TERM | POST EMPLOYMENT | LONG TERM INCENTIVES | TOTAL REMUNERATION | |
|--------------------------------|-------------|--------------------------|-----------------|----------------------|--------------------|------------------------------------|
| | | Board and Committee fees | Superannuation | Share Based Payments | Total | % of remuneration that is non-cash |
| | | \$ | \$ | \$ | \$ | |
| Non-Executive Directors | | | | | | |
| George Venardos | 2015 | 70,000 | 6,650 | - | 76,650 | - |
| | 2014 | 70,000 | 6,463 | 69,750 | 146,213 | 47.7 |
| Gregory Cornelsen | 2015 | 50,000 | 4,750 | - | 54,750 | - |
| | 2014 | 50,000 | 4,617 | 40,050 | 94,667 | 42.3 |
| Chandra Kantamneni | 2015 | 42,500 | 4,038 | - | 46,538 | - |
| | 2014 | 42,500 | 3,931 | 40,050 | 86,481 | 46.3 |
| William Johnson | 2015 | 42,500 | - | - | 42,500 | - |
| | 2014 | 42,144 | - | - | 42,144 | - |
| Total | 2015 | 205,000 | 15,438 | - | 220,438 | |
| Total | 2014 | 204,644 | 15,011 | 149,850 | 369,505 | |

The value of options 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 options granted. Additionally no discount for uncertainty has been assigned to these option valuations, which do carry the risk of not meeting vesting hurdles.

Dr Johnson's fees, in his capacity as a director, were paid directly to SPTS until the end of February 2014 and since March 2014 they have been paid directly to him.

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. No bonuses were paid during the year.

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. 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. Executive have had no increase in their fixed salary packages for the past 2 years.

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 must be 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.

EXECUTIVES TOTAL REMUNERATION

| | | SHORT TERM | | POST EMPLOYMENT | LONG TERM INCENTIVES | TOTAL REMUNERATION | % of REMUNERATION THAT IS | |
|-------------------|------|-------------|-----------------------|-----------------|----------------------|--------------------|---------------------------|----------|
| | | Cash Salary | KPI Related Incentive | Superannuation | Share Based Payments | Total | Performance based | Non cast |
| Executives | | \$ | \$ | \$ | \$ | \$ | | |
| Giles Bourne | 2015 | 305,774 | - | 24,226 | - | 330,000 | - | - |
| | 2014 | 306,358 | 52,800 | 23,642 | 99,000 | 481,800 | 11.0 | 20.5 |
| Ian Mann | 2015 | 219,178 | - | 20,822 | - | 240,000 | - | - |
| | 2014 | 219,680 | 38,400 | 20,320 | 72,000 | 350,400 | 11.0 | 20.5 |
| Stuart Uhlhorn | 2015 | 195,001 | - | 33,592 | - | 228,593 | - | - |
| | 2014 | 215,260 | 38,400 | 24,740 | 72,000 | 350,400 | 11.0 | 20.8 |
| Total | 2015 | 719,953 | - | 78,640 | - | 798,593 | | |
| Total | 2014 | 741,298 | 129,600 | 68,702 | 243,000 | 1,182,600 | | |

The value of options 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 options granted. Additionally no discount for uncertainty has been assigned to these option 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 2015 and 2014. As a contracted position the company secretary is not eligible to participate in short term incentive scheme and 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. Even though the majority of executives KPIs for the year ending June 2014 were met, no performance payment's were made during the year in the normal July to August 2014 period due to the board's and management's desire to preserve the company's cash resources.

The IP portfolio at the end of 30 June 2015 now includes 34 granted patents in various countries, covering seven separate patent families. In addition there are 19 patent applications in various stages filed in numerous countries. During July 2015 a further 5 patents were granted with one additional patent lodgement, giving a total 39 granted patents and 20 lodged applications at the date of this report. The following table shows the gross revenue and losses over the last 5 years as well as the number of patents lodged and granted.

| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---------------------------------|----------|---------|---------|---------|---------|
| Revenue \$'000 | 2,085.1 | 2,427.8 | 4,725.9 | 4,112.7 | 3,532.9 |
| Net Loss \$'000 | -4,170.6 | 3,237.3 | 1,676.7 | 2,898.4 | 3,183.3 |
| Share price at year-end dollars | 0.115 | 0.086 | 0.15 | 12.5 | 5.8 |
| Patents lodged | 1 | 1 | 2 | 2 | 3 |
| Patents Granted | 2 | 2 | 2 | 14 | 5 |

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

OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2015

No options or share based payments were granted to staff or directors as remuneration during the year. en

MOVEMENT IN SHAREHOLDINGS OF KMP AS AT 30 JUNE 2015

| | Total | Direct | BLG ESS | Movement | | Total | Direct | BLG ESS |
|---------------------------------|------------------------|-----------|-----------|----------|-----|------------------------|-----------|-----------|
| Non-Executives directors | Opening Balance | | | On | Off | Closing Balance | | |
| George Venardos | 1,540,118 | 1,353,451 | 186,667 | 240,000 | - | 1,780,118 | 1,593,451 | 186,667 |
| Greg Cornelsen | 1,307,941 | 1,027,941 | 280,000 | 240,000 | - | 1,547,941 | 1,267,941 | 280,000 |
| Chandra Kantamneni | 472,647 | 192,647 | 280,000 | 240,000 | - | 712,647 | 432,647 | 280,000 |
| William Johnson | 430,000 | 150,000 | 280,000 | 240,000 | - | 670,000 | 390,000 | 280,000 |
| Executives | | | | | | | | |
| Giles Bourne | 1,184,566 | 94,233 | 1,090,333 | 240,000 | - | 1,424,566 | 334,233 | 1,090,333 |
| Ian Mann | 711,276 | 117,943 | 593,333 | 240,000 | - | 951,276 | 357,943 | 593,333 |
| Stuart Uhlhorn | 837,283 | 68,950 | 768,333 | 240,000 | - | 1,077,283 | 308,950 | 768,333 |

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 2015

| | Movement | | | | | | |
|--------------------------------|------------------------|----------------------|-------------------------|---------------------|-------------------------|------------------------|-------------------|
| Non-Executive Directors | Opening Balance | Vested in O/B | Vested in period | Total Vested | Lapsed in period | Closing Balance | Unvested % |
| George Venardos | 651,667 | 186,667 | - | 186,667 | - | 651,667 | 71.4% |
| Greg Cornelsen | 547,000 | 280,000 | - | 280,000 | - | 547,000 | 48.8% |
| Chandra Kantamneni | 547,000 | 280,000 | - | 280,000 | - | 547,000 | 48.8% |
| William Johnson | 280,000 | 280,000 | - | 280,000 | - | 280,000 | 0.0% |
| Executives | | | | | | | |
| Giles Bourne | 2,064,333 | 1,090,333 | - | 1,090,333 | - | 2,064,333 | 47.2% |
| Ian Mann | 1,380,000 | 593,333 | - | 593,333 | - | 1,380,000 | 57.0% |
| Stuart Uhlhorn | 1,478,333 | 768,333 | - | 768,333 | - | 1,478,333 | 48.0% |

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

No options 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 268,000 shares were withdrawn from the trust.

APPROVAL OF 2014 REMUNERATION REPORT

A resolution seeking approval of the 2014 Remuneration Report was tabled at the November 2014 Annual General Meeting. The resolution was passed at that meeting with the vote in favour recorded of 99.53%.

REMUNERATION ADVISORS

During the period no remuneration advisors were retained or used by the Company.

- END OF REMUNERATION REPORT -

DIRECTORS' REPORT cont.

MEETINGS OF DIRECTORS

During the financial year, 10 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 |
| George Venardos | 10 | 10 | 3 | 3 | 1 | 1 |
| Gregory Cornelsen | 10 | 9 | 3 | 3 | 1 | 1 |
| Chandra Kantamneni | 10 | 9 | 3 | 3 | - | - |
| William Johnson | 10 | 10 | - | - | 1 | 1 |
| Giles Bourne | 8 | 7 | - | - | - | - |

INDEMNITIES GIVEN AND INSURANCE PREMIUMS PAID TO 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 \$28,480 (2014 \$29,180) 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 |
|------------|----------------|----------------|-----------------------|
| 26/01/2013 | 26/01/2016 | 0.00 | 1,832,668 |
| 16/01/2014 | 16/01/2016 | 0.01 | 4,059,000 |
| | | | <hr/> 5,891,666 <hr/> |

During the year ended 30 June 2015, no 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

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 2015 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 |
|-------------|-------------------|-------|----------|----------|
| 18 | 8 | 4 | 1 | 5 |

Gender Diversity

| | Male | Female |
|-------------------------|------|--------|
| Total Staff | 11 | 7 |
| 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 |
|-------------|-----|---------|----------|----------------------|-------------------|
| 18 | 9 | 10 | 13 | 3 | 3 |

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

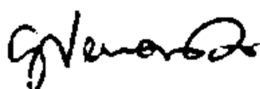
• the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non-audit services payable to the external auditors during the year ended 30 June 2015

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 2015 has been received and can be found on page 19 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.



George Venardos

Chairman

Dated the 27th day of July 2015

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 audit of BluGlass Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Grant S Layland
Director - Audit & Assurance

Sydney, 27 July 2015

Grant Thornton Audit Pty Ltd ABN 94 269 609 023
ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

PROFIT OR LOSS AND COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

| | Note | Consolidated Entity | |
|----------------------------------------------------|----------|---------------------|--------------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| Revenue | 2 | 330,738 | 481,790 |
| Other income | 2 | 3,202,191 | 3,630,954 |
| Employee benefits expense | 16 | (3,233,197) | (3,272,988) |
| Professional fees | | (154,244) | (146,221) |
| Board and secretarial fees | | (283,363) | (310,780) |
| Corporate compliance & legal expense | | (56,269) | (74,714) |
| Consultant fees | | (320,259) | (557,627) |
| Rent expense | | (253,789) | (245,643) |
| Travel and accommodation expense | | (99,716) | (79,548) |
| Consumables | | (893,169) | (900,233) |
| Depreciation and amortisation expense | | (777,652) | (536,754) |
| Other expenses | | (644,527) | (886,671) |
| Loss before income tax | 3 | (3,183,256) | (2,898,435) |
| Income tax expense | 4 | - | - |
| Loss for the period | | (3,183,256) | (2,898,435) |
| Other comprehensive income | | - | - |
| Total comprehensive income | | (3,183,256) | (2,898,435) |
| Loss attributable to: | | | |
| - Members of the parent entity | | (3,183,256) | (2,898,435) |
| - Non-controlling interest | | - | - |
| | | (3,183,256) | (2,898,435) |
| Total Comprehensive Income attributable to: | | | |
| - Members of the parent entity | | (3,183,256) | (2,898,435) |
| - Non-controlling interest | | - | - |
| | | (3,183,256) | (2,898,435) |
| Earnings Per Share | | | |
| Basic loss per share (cents per share) | 6 | (1.1) | (1.0) |
| Diluted loss per share (cents per share) | 6 | (1.1) | (1.0) |

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

FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

| | Note | Consolidated Entity | |
|--------------------------------------|------|---------------------|-------------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| Current Assets | | | |
| Cash and cash equivalents | 7 | 2,528,849 | 2,445,235 |
| Trade and other receivables | 8 | 2,050,812 | 2,269,950 |
| Consumables | 9 | 76,919 | 94,083 |
| Other current assets | 10 | 57,373 | 81,167 |
| TOTAL CURRENT ASSETS | | 4,713,953 | 4,890,435 |
| Non-Current Assets | | | |
| Property, plant and equipment | 11 | 1,376,286 | 2,116,117 |
| Intangible assets | 12 | 8,695,000 | 8,695,000 |
| TOTAL NON-CURRENT ASSETS | | 10,071,286 | 10,811,117 |
| TOTAL ASSETS | | 14,785,239 | 15,701,552 |
| Current Liabilities | | | |
| Trade and other payables | 14 | 242,554 | 430,086 |
| Short-term provisions | 15 | 186,651 | 141,298 |
| TOTAL CURRENT LIABILITIES | | 429,205 | 571,384 |
| Non-Current Liabilities | | | |
| Long-term provisions | 15 | 403,649 | 330,513 |
| TOTAL NON-CURRENT LIABILITIES | | 403,649 | 330,513 |
| TOTAL LIABILITIES | | 832,854 | 901,897 |
| NET ASSETS | | 13,952,385 | 14,799,655 |
| Equity | | | |
| Issued capital | 17 | 44,519,279 | 42,673,992 |
| Reserves | 18 | 448,760 | (41,935) |
| Accumulated Losses | | (31,015,654) | (27,832,398) |
| TOTAL EQUITY | | 13,952,385 | 14,799,655 |

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

CHANGES IN EQUITY

| | Issued Capital | Share-Based Payments | Other Reserves | Accumulated Losses | Total |
|-------------------------------------------------------------|----------------|----------------------|----------------|--------------------|-------------|
| | \$ | \$ | \$ | \$ | \$ |
| Consolidated Entity | | | | | |
| Balance at 1 July 2013 | 42,673,992 | 409,914 | (982,452) | (24,975,030) | 17,126,424 |
| Total comprehensive income for the period | - | - | - | (2,898,435) | (2,898,435) |
| | - | - | - | (2,898,435) | (2,898,435) |
| Transactions with owners in their capacity as owners | | | | | |
| Share options issued | - | 571,670 | - | - | 571,670 |
| Exercise of share option | - | - | - | - | - |
| Transfer to retained earnings | - | (41,067) | - | 41,067 | - |
| Dividends paid or provided for | - | - | - | - | - |
| Balance at 30 June 2014 | 42,673,992 | 940,513 | (982,452) | (27,832,398) | 14,799,655 |
| Balance at 1 July 2014 | 42,673,992 | 940,513 | (982,452) | (27,832,398) | 14,799,655 |
| Total comprehensive income for the period | - | - | - | (3,183,256) | (3,183,256) |
| | | | | (3,183,256) | (3,183,256) |
| Transactions with owners in their capacity as owners | | | | | |
| Shares issued during the year | 1,960,500 | - | - | - | 1,960,500 |
| Share transaction costs during the year | (115,213) | - | - | - | (115,213) |
| Share options issued | - | 490,699 | - | - | 490,699 |
| Exercise of share option | - | - | - | - | - |
| Dividends paid or provided for | - | - | - | - | - |
| Balance at 30 June 2015 | 44,519,279 | 1,431,212 | (982,452) | (31,015,654) | 13,952,385 |

CASHFLOWS

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

| | Note | Consolidated Entity | |
|---------------------------------------------------------|-----------|---------------------|--------------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from grants | | 1,235,954 | 1,430,954 |
| Interest and other income received | | 2,296,975 | 2,681,790 |
| Payments to suppliers and employees | | (5,256,780) | (5,931,794) |
| Net cash used in operating activities | 21 | (1,723,851) | (1,819,050) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchase of property, plant and equipment | | (37,822) | (1,325,585) |
| Net cash used in investing activities | | (37,822) | (1,325,585) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from issue of shares, net of transaction costs | | 1,845,287 | - |
| Proceeds from options exercised | | - | - |
| Repayment of borrowings | | - | - |
| Net cash provided by financing activities | | 1,845,287 | - |
| Net increase/(decrease) in cash held | | 83,614 | (3,144,635) |
| Cash at beginning of financial year | | 2,445,235 | 5,589,870 |
| Cash at end of financial year | 7 | 2,528,849 | 2,445,235 |

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 27th July 2015 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. A controlled entity is any entity BluGlass Limited has the power to control the financial and operating policies of so as to obtain benefits from its activities.

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 or fair value 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 income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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 statement of comprehensive income.

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 income statement, 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 cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

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***AASB 2013-3 Recoverable Amount Disclosures for Non-Financial Assets***

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

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal. AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets.

The Group has not yet assessed the full impact of these amendments.

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

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

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

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

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

The Group has not yet assessed the full impact of these amendments.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**(t) Accounting Standards issued but not yet effective and not adopted early by the Group****AASB 15 Revenue from contracts with Customers**

AASB15:

- replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations:
- 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, rights of return, warranties and licensing)
- expands and improves disclosures about revenue

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

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

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

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- i The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- ii When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

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

(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 has a number of options for raising future capital requirements and the directors are confident that one or more of these options will be successful during the period. 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 | |
|----------------------------------------|----------------------------|-------------|
| | 2015 | 2014 |
| | \$ | \$ |
| Revenue | | |
| — interest received from other persons | 53,913 | 122,404 |
| — sundry income | 276,825 | 359,386 |
| Total Revenue | 330,738 | 481,790 |
| Other Income | | |
| — grant revenue | 1,235,954 | 1,430,954 |
| — R&D tax rebate | 1,966,237 | 2,200,000 |
| Total other income | 3,202,191 | 3,630,954 |

NOTE 3: LOSS FOR THE YEAR

| | Consolidated Entity | |
|------------------------------------|----------------------------|-------------|
| Expenses: | 2015 | 2014 |
| | \$ | \$ |
| Rental Expense on operating leases | | |
| — Minimum lease payments | 253,789 | 245,643 |
| Share based payments | 490,699 | 571,669 |

NOTE 4: INCOME TAX EXPENSE

| | Consolidated Entity | |
|---------------------------------------------|----------------------------|-------------|
| | 2015 | 2014 |
| | \$ | \$ |
| (a) The components of tax expense comprise: | | |
| — Current tax | - | - |
| — Deferred tax | - | - |
| | - | - |

NOTE 4: INCOME TAX EXPENSE (cont.)

| | | Consolidated Entity | |
|----------------|-------------------------------------------------------------------------------------------|----------------------------|------------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| (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% (2014: 30%) | | |
| — | consolidated entity | (954,977) | (869,531) |
| Add: | | | |
| Tax effect of: | | | |
| — | IPO related costs(deductible over 5 years) | 92,709 | 92,709 |
| — | share based payments during year | 147,210 | 171,501 |
| — | other non-allowable items | 65,028 | 60,753 |
| | | <u>304,947</u> | <u>324,963</u> |
| Add: | | | |
| | Income tax benefit not brought to account | (650,030) | (571,568) |
| | Income tax benefit attributable to the entity | - | - |
| | Accumulated tax losses not brought to account | <u>5,696,245</u> | <u>5,046,215</u> |

NOTE 5: AUDITORS' REMUNERATION

| | | Consolidated Entity | |
|----------------------------------|--------------------------------------------|----------------------------|---------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| Remuneration of the auditor for: | | | |
| — | auditing or reviewing the financial report | 63,236 | 56,221 |
| — | Other audit services | - | - |
| | | <u>63,236</u> | <u>56,221</u> |

NOTE 6: LOSS PER SHARE

| | Consolidated Entity | |
|-----------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------|
| | 2015 \$ | 2014 \$ |
| (a) Loss attributable to members of the parent entity | (3,183,256) | (2,898,435) |
| (b) Basic and diluted loss per share (cents per share) | (1.1) | (1.0) |
| | No. | No. |
| (c) Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS. | 289,553,455 | 286,388,177 |

NOTE 7: CASH AND CASH EQUIVALENTS

| | Consolidated Entity | |
|--------------------------|----------------------------|-------------------|
| | 2015 \$ | 2014 \$ |
| Cash at bank and in hand | 77,165 | 79,571 |
| Short-term bank deposits | 2,451,078 | 2,365,344 |
| Petty cash | 606 | 321 |
| | <u>2,528,849</u> | <u>2,445,235</u> |

The effective interest rate on short-term bank deposits was 2.73% (2013:3.4%), these deposits have an average maturity of less than 14 days.

NOTE 8: TRADE AND OTHER RECEIVABLES

| | Consolidated Entity | |
|-------------------------------------|----------------------------|------------------|
| | 2015 | 2014 |
| | \$ | \$ |
| Research and Development Tax Rebate | 2,000,000 | 2,200,000 |
| Other | 50,812 | 69,950 |
| | <u>2,050,812</u> | <u>2,269,950</u> |

NOTE 9: CONSUMABLES

| | Consolidated Entity | |
|-------------|----------------------------|---------------|
| | 2015 | 2014 |
| | \$ | \$ |
| CURRENT | | |
| Consumables | 76,919 | 94,083 |
| | <u>76,919</u> | <u>94,083</u> |

NOTE 10: OTHER CURRENT ASSETS

| | Consolidated Entity | |
|-------------------|----------------------------|---------------|
| | 2015 | 2014 |
| | \$ | \$ |
| CURRENT | | |
| Prepayments | 28,576 | 25,214 |
| Security deposit | 14,516 | 14,516 |
| Other receivables | 14,281 | 41,437 |
| | <u>57,373</u> | <u>81,167</u> |

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 (2014: nil).

NOTE 11: PLANT AND EQUIPMENT

| | Consolidated Entity | |
|----------------------------------|----------------------------|------------------|
| | 2015 | 2014 |
| | \$ | \$ |
| PLANT AND EQUIPMENT | | |
| Plant and equipment | | |
| At cost | 6,226,689 | 6,198,485 |
| Accumulated depreciation | (5,452,353) | (4,987,801) |
| Total plant and equipment | <u>774,336</u> | <u>1,210,684</u> |
| Leased plant and equipment | | |
| At cost | 1,006,170 | 1,006,170 |
| Accumulated depreciation | 1,006,170 | 1,006,170 |
| Total leased plant and equipment | <u>-</u> | <u>-</u> |

NOTE 11: PLANT & EQUIPMENT (cont.)

| | Consolidated Entity | |
|-------------------------------------|----------------------------|-------------|
| | 2015 | 2014 |
| | \$ | \$ |
| Leasehold improvements | | |
| At cost | 3,797,008 | 3,791,158 |
| Accumulated depreciation | (3,246,424) | (2,961,690) |
| Total leasehold improvements | 550,584 | 829,468 |
| Furniture and fittings | | |
| At cost | 145,340 | 145,033 |
| Accumulated depreciation | (113,799) | (90,957) |
| Total furniture and fittings | 31,541 | 54,076 |
| Computer equipment | | |
| At cost | 275,618 | 272,164 |
| Accumulated depreciation | (255,793) | (250,275) |
| Total computer equipment | 19,825 | 21,889 |
| Total property, plant and equipment | 1,376,286 | 2,116,117 |

(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

| | Leased Plant and Equipment | Plant and Equipment | Leasehold Improvements | Furniture and Fittings | Computer Equipment | Total |
|-----------------------------|-------------------------------------------|--------------------------------|-----------------------------------|---------------------------------------|-------------------------------|--------------|
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Consolidated Entity: | | | | | | |
| Balance at 30 June 2014 | - | 1,210,684 | 829,468 | 54,076 | 21,889 | 2,116,117 |
| Additions | - | 28,208 | 5,850 | 310 | 3,454 | 37,822 |
| Disposals | - | - | - | - | - | - |
| Depreciation expense | - | (464,548) | (284,734) | (22,842) | (5,520) | (777,644) |
| Balance at 30 June 2015 | - | 774,336 | 550,584 | 31,541 | 19,825 | 1,376,286 |

NOTE 12: INTANGIBLE ASSETS

| | Consolidated Entity | |
|--------------------------------------|----------------------------|-------------|
| | 2015 | 2014 |
| | \$ | \$ |
| 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. 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% (2014: 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 \$18 million to \$25 million.

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

| | Country of Incorporation | Percentage Owned (%)* | |
|------------------------------------------|--------------------------------|-----------------------|------|
| | | 2015 | 2014 |
| 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 | |
|--------------------------------------|---------------------|----------------|
| | 2015 \$ | 2014 \$ |
| CURRENT | | |
| Trade payables | 115,788 | 253,165 |
| Sundry payables and accrued expenses | 126,766 | 176,921 |
| | <u>242,554</u> | <u>430,086</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 | | | |
|--------------------------------|--------------------------|----------------------------|-------------|
| | 2015 | 2014 | |
| | \$ | \$ | |
| Current | 186,651 | 141,298 | |
| Non-Current | 403,649 | 330,513 | |
| | 590,300 | 471,811 | |
| | | | |
| | Lease Make Good \$ | Employee Benefits \$ | Total \$ |
| Consolidated Group | | | |
| Opening balance at 1 July 2014 | 200,000 | 271,811 | 471,811 |
| Additional provisions | - | 239,224 | 239,224 |
| Amounts used | - | (120,735) | (120,735) |
| | | | |
| Balance at 30 June 2015 | 200,000 | 390,300 | 590,300 |

NOTE 16: EMPLOYEE BENEFITS EXPENSE

| Consolidated Entity | | | |
|----------------------|-----------|-----------|--|
| | 2015 | 2014 | |
| | \$ | \$ | |
| Wages, Salaries | 2,516,218 | 2,484,263 | |
| Share-based payments | 490,699 | 571,669 | |
| Superannuation | 226,280 | 217,056 | |
| | 3,233,197 | 3,272,988 | |

NOTE 17: ISSUED CAPITAL

| Consolidated Entity | | | |
|------------------------------------------------------------|------------|------------|--|
| | 2015 | 2014 | |
| | \$ | \$ | |
| 319,116,721 (2014: 287,748,721) fully paid ordinary shares | 44,519,235 | 42,673,992 | |
| | 44,519,279 | 42,673,992 | |

The company has authorised share capital amounting to 319,116,721 ordinary shares.

| (a) | Ordinary Shares | No. | \$ |
|-----|--------------------------------------|-------------|------------|
| | At the beginning of reporting period | 287,748,721 | 42,673,992 |
| | Shares issued during the year | | |
| — | 10 June 2015 | 31,368,000 | 1,845,287 |
| | At reporting date | 319,116,721 | 44,519,279 |

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 | |
|------------------------------------------------------------------------------------------------|-------------------------------|----------------------------|----------------|
| | | 2015 | 2014 |
| | | \$ | \$ |
| (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 | 200,000 | 200,000 |
| — | Between 12 months and 5 years | 275,068 | 474,521 |
| — | greater than 5 years | - | - |
| | | 475,068 | 674,521 |

The lease was renewed for an additional term of five years from February 2013. 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 | |
|------------------------------------------------------------------------------------------------|---------------------|-------------|
| | 2015 | 2014 |
| | \$ | \$ |
| (a) Reconciliation of Cash Flow from Operations with Loss after Income Tax | | |
| Loss after income tax | (3,183,256) | (2,898,435) |
| Non-cash flows in loss | | |
| Depreciation expense | 777,652 | 536,754 |
| Share based payment | 490,699 | 571,670 |
| 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 | 219,138 | (302,166) |
| (Increase)/decrease in other assets | 23,794 | 32,397 |
| Decrease/(increase) in deposits | - | - |
| Decrease in consumables | 17,164 | 49,979 |
| Increase/(decrease) in trade and other payables and accruals | (180,432) | 178,981 |
| Increase in provisions | 111,390 | 11,770 |
| Cash flow from operations | (1,723,851) | (1,819,050) |

NOTE 22: SHARE-BASED PAYMENTS

The following share-based payments existed at 30 June 2015:

| | Consolidated Entity | | | |
|------------------------------------------|---------------------|------------------------------------|-------------------|------------------------------------|
| | 2015 | | 2014 | |
| | Number of Options | Weighted Average Exercise Price \$ | Number of Options | Weighted Average Exercise Price \$ |
| Outstanding at the beginning of the year | 5,891,666 | 0.01 | 4,616,891 | 0.10 |
| Granted | - | - | 4,059,000 | 0.01 |
| Forfeited | - | - | - | - |
| Exercised | - | - | (2,784,225) | 0.00 |
| Expired | - | - | - | - |
| Outstanding at year-end | 5,891,666 | 0.01 | 5,891,666 | - |
| Exercisable at year-end | - | - | - | - |

The options outstanding at 30 June 2015 had a weighted average exercise price of \$0.01 and a weighted average remaining contractual life of 1.7 years. (Option prices were \$0.01 in respect of options outstanding at 30 June 2014).

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 \$490,677 (2014: \$571,669) and relates, in full, to equity-settled share-based payment transactions.

NOTE 23: RELATED PARTY TRANSACTIONS

| | Consolidated Entity | |
|----------------------------------------------------------------------------------------------------------|---------------------|------------------|
| | 2015 \$ | 2014 \$ |
| The totals of remuneration paid to key management personnel of the group during the year are as follows: | | |
| Short term employment benefits | 924,953 | 1,075,542 |
| Post-Employment benefits | 94,078 | 83,713 |
| Share-based payments | - | 392,850 |
| | <u>1,019,031</u> | <u>1,552,105</u> |

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 | |
|------------------------------|------|---------------------|------------------|
| | | 2015 | 2014 |
| Financial Assets | | \$ | \$ |
| Cash and cash equivalents | 7 | 2,528,849 | 2,445,235 |
| Trade and other receivables | 8 | 2,050,812 | 2,269,950 |
| | | <u>4,579,661</u> | <u>4,715,185</u> |
| Financial Liabilities | | | |
| Trade and other payables | 14 | 242,554 | 430,086 |
| | | <u>242,554</u> | <u>430,086</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 2015 the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

| 30 June 2015 | Current | | Non-Current | |
|--------------------------|-----------------|----------------|--------------|--------------------|
| | Within 6 months | 6 to 12 months | 1 to 5 years | Later than 5 years |
| | \$ | \$ | \$ | \$ |
| Trade and other payables | 242,554 | - | - | - |
| Total | 242,554 | - | - | - |

| 30 June 2014 | Current | | Non-Current | |
|--------------------------|-----------------|----------------|--------------|--------------------|
| | Within 6 months | 6 to 12 months | 1 to 5 years | Later than 5 years |
| | \$ | \$ | \$ | \$ |
| Trade and other payables | 430,086 | - | - | - |
| Total | 430,086 | - | - | - |

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 | |
|---------------------------------------------|------------------------------------------|-----------|------------------------|-----------|
| | 2015 \$ | 2015 % | 2014 \$ | 2014 % |
| Consolidated Entity | | | | |
| Financial Assets: | | | | |
| Cash | 77,771 | 1.0 | 79,891 | 2.1 |
| Investments in term deposits and bank bills | 2,451,078 | 2.1 | 2,365,344 | 3.3 |
| Total Financial Assets | 2,528,849 | | 2,445,235 | |

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 2015 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 \$133,100. Collateral for the bank guarantee is a set-off against cash invested with the CBA for \$133,100. 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

| | 2015 | 2014 |
|------------------------------|--------------|--------------|
| | \$ | \$ |
| Parent entity | | |
| Assets | | |
| Current assets | 4,753,144 | 4,929,626 |
| Non-current assets | 12,225,141 | 13,137,297 |
| Total assets | 16,978,285 | 18,066,924 |
| Liabilities | | |
| Current liabilities | 430,796 | 572,976 |
| Non-current liabilities | 2,595,105 | 2,521,969 |
| Total liabilities | 3,025,901 | 3,094,945 |
| Net Assets | 13,952,384 | 14,971,979 |
| Equity | | |
| Issued capital | 44,519,281 | 42,673,992 |
| Accumulated Losses | (31,015,659) | (27,660,078) |
| Reserves | 448,762 | (41,935) |
| Total Equity | 13,952,384 | 14,971,979 |
| Financial performance | | |
| Loss for the year | (3,364,896) | (6,049,190) |
| Other comprehensive income | - | - |
| Total comprehensive income | (3,364,896) | (6,049,190) |

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

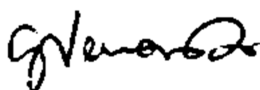
1. In the opinion of the directors of BluGlass Limited:

- 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 2015 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 2015.

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:



George Venardos
Chairman
Dated this 27th Day of July 2015



Giles Bourne
Managing Director and Chief Executive Officer
Dated this 27th Day of July 2015

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 Report To the Members of BluGlass Limited

Report on the financial report

We have audited the accompanying financial report of BluGlass Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and

Grant Thornton Audit Pty Ltd ABN 94 269 609 023
ACN 130 913 594
a subsidiary or related entity of Grant Thornton Australia Ltd ABN 41 127 556 389

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton Australia Ltd is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate one another and are not liable for one another's acts or omissions. In the Australian context only, the use of the term 'Grant Thornton' may refer to Grant Thornton Australia Limited ABN 41 127 556 389 and its Australian subsidiaries and related entities. GTIL is not an Australian related entity to Grant Thornton Australia Limited.

Liability limited by a scheme approved under Professional Standards Legislation. Liability is limited in those States where a current scheme applies.

plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

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

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

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

Report on the remuneration report

We have audited the remuneration report included in pages 10 to 15 of the directors' report for the year ended 30 June 2015. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



Grant S Layland
Director - Audit & Assurance

Sydney, 27 July 2015