

BRIGHTER FUTURE LOWER TEMPERATURE

INTERIM FINANCIAL REPORT FOR THE
HALF YEAR ENDED 31 DECEMBER 2013

BLUGLASS LIMITED and CONTROLLED ENTITIES
ABN 20 116 825 793


BLUGLASS

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DIRECTORS' REPORT

Your directors present their report on the company and its controlled entities for the half year ended 31 December 2013.

Directors

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

Mr George Venardos

Mr Greg Cornelsen

Mr Chandra Kantamneni

Dr William Johnson

Principal Activities

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

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

Operating Results

Revenue has decreased by \$674,991 down 26% to \$1,971,838 due to the following factors:

- In the comparative period, the company recognised a full 12 month R&D rebate received of \$2,349,139 relating to 30 June 2012 compared to a 6 months accrual of \$1,232,372 in the current period.
- Receipt of \$595,332 from the Commonwealth Clean Technology Grant. Up 147% on last year, where BluGlass only received the final retention payment from the Commonwealth Climate Ready Grant.
- Receipt of the first operational revenue \$61,300 (2012: nil)

Gross expenditure has increased on a consolidated basis by \$158,362 up 5% due to the following factors:

- Employment of extra staff. Employee benefits expense up \$1,461,387(2012: \$1,135,232).
- Depreciation expense is reducing as original research equipment is progressively written off, \$250,673 (2012: \$413,731).

The consolidated loss for the period amounted to \$1,635,006 (2012: \$754,512) due to the following factors:

- Tax rebate receipts of \$1,232,372 (2012: \$2,349,139).

The company's financial position remains sound with net assets of \$15,858,641 (2012: \$17,126,424)

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

Dividends Paid or Recommended

No dividends were paid or declared during the period.

2014 Half Yearly Review of Operations

The 2014 half year saw the company accomplish a number of technical and commercial milestones; including bringing the Thomas Swan MOCVD system online at Silverwater, growing the companies intellectual property portfolio, being awarded a \$2.99M Clean Technology Innovation Grant and winning the 2013 Australian Cleantech Competition and also receiving initial customer revenues.

In August BluGlass was awarded a \$2.99M grant from the Federal Government as part of the Clean Technology Innovation Grant Program. These funds will be primarily used to expedite research and development into achieving the companies **Brighter LEDs** milestone and commencing work on GaN on silicon substrates. Silicon is a low cost, large diameter substrate that is currently limited in its application for LED semiconductor material growth. This is because the high temperatures of MOCVD growth generally lead to bowing of the substrate, which leads to poor manufacturing yields. RPCVD is a low temperature process that is potentially better suited for the growth of GaN on silicon substrates. It is anticipated that this will result in a revenue stream for the company as presently GaN on silicon is not competitive with the industry standard substrate, sapphire despite its huge commercial appeal as a low cost solution for LED's.

In October, it was announced that BluGlass had won the 2013 Australian Cleantech Competition and had also won the Manufacturing award. The competition is an initiative of the Federal Governments Department of Industry and is supported by Industry partners. As part of the main prize, CEO Giles Bourne participated in a government sponsored Asian trade mission through Hong Kong, Singapore and China. The mission has enabled us to continue to reach out to the industry and discuss our development and future potential collaboration.

In November 2013, BluGlass announced that it has successfully commissioned a former production Thomas Swan MOCVD platform at Silverwater to assist the company towards achieving its 'Brighter LED's milestone. BluGlass now has two deposition systems operating at the Silverwater site to enable multiple programmes to be in place simultaneously. We are also in the process of commissioning a larger scale RPCVD system to come online in the coming months trebling our deposition capacity at Silverwater.

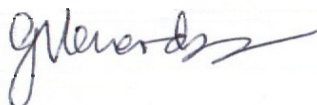
With this increased capacity and development tasks, BluGlass has added two experienced semiconductor equipment engineers to the team to assist BluGlass in reaching it's next milestone, but more critically to be completely ready for the commercialisation milestones which include scaling the technology and bringing RPCVD to market upon the delivery of our Brighter LEDs milestone.

During the half year BluGlass was granted an additional three patents in the international semiconductor market, bringing the companies total granted patent portfolio to 20 patents in key semiconductor countries, including the US, Japan, China and Europe. The BluGlass Intellectual Property portfolio continues to be an important aspect of preparing the business for commercialisation.

Following the successful commissioning of the MOCVD machine at Silverwater at the end of 2013, BluGlass has received modest revenue from customers for the manufacture of high quality MOCVD niche templates. This work has continued in January and February and supplements the current research efforts. The company only undertakes third party works where it does not detract from the principle RPCVD research effort, and will continue to undertake this work as capacity allows. BluGlass also has commitments from customers for further revenue for the delivery of niche products. These successful customer relationships will help build the reputation and credibility of the BluGlass material engineers as they produce unique template solutions to industry challenges to meet the needs of our customers.

The first half of the 2014 Financial Year has been an exciting and productive six months that has placed the company well to meet its coming milestones.

A copy of the auditor's independence declaration is required under s307 of the Corporations Act 2001 and is included on page 5 of this report.



Director George Venardos

Dated this 24th day of February 2014

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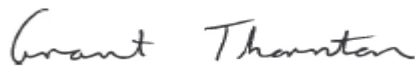
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**Auditor's Independence Declaration
To The Directors of BluGlass Limited**

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of BluGlass Limited for the half-year ended 31 December 2013, I declare that, to the best of my knowledge and belief, there have been:

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



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



G S Layland
Director - Audit & Assurance

Sydney, 24 February 2014

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**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

	Note	Consolidated Group	
		31.12.2013	31.12.2012
		\$	\$
Revenue	2	1,971,838	2,646,829
Employee benefits expense		(1,461,387)	(1,135,232)
Professional fees		(121,426)	(232,657)
Board and secretarial fees		(154,073)	(142,196)
Corporate compliance & legal expenses		(50,704)	(144,232)
Consultant fees		(363,805)	(141,173)
Rent expense		(121,000)	(113,001)
Travel and accommodation expense		(37,277)	(43,413)
Engineering, consumable & repairs expense		(362,103)	(302,075)
Depreciation expense		(250,673)	(413,731)
Share based payment		(367,223)	(386,884)
Other expenses		(317,173)	(346,747)
Loss before income tax		(1,635,006)	(754,512)
Income tax expense		-	-
Loss for the period		(1,635,006)	(754,512)
Other comprehensive income		-	-
Total comprehensive income attributable to members of the parent entity		(1,635,006)	(754,512)
Profits attributable to:			
-- members of the parent entity		(1,635,006)	(754,512)
		(1,635,006)	(754,512)
Total Comprehensive income attributable			
-- members of the parent entity		(1,635,006)	(754,512)
		(1,635,006)	(754,512)
Earnings per share			
Basic earnings per share (cents per share)		(0.56)	(0.67)
Diluted earnings per share (cents per share)		(0.56)	(0.67)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2013

	Consolidated Group	
	31.12.2013	30.06.2013
	\$	\$
ASSETS		
Current Assets		
Cash and cash equivalents	4,525,151	5,589,870
Trade and other receivables	1,346,007	1,967,784
Consumables	164,078	144,062
Other current assets	116,030	113,564
TOTAL CURRENT ASSETS	6,151,266	7,815,280
Non-Current Assets		
Property, plant and equipment	1,892,740	1,327,286
Intangible assets	8,695,000	8,695,000
TOTAL NON-CURRENT ASSETS	10,587,740	10,022,286
TOTAL ASSETS	16,739,006	17,837,566
LIABILITIES		
Current Liabilities		
Trade and other payables	324,258	251,101
Short-term provisions	236,898	161,958
TOTAL CURRENT LIABILITIES	561,156	413,059
Non-current Liabilities		
Long-term provisions	319,209	298,083
TOTAL NON-CURRENT LIABILITIES	319,209	298,083
TOTAL LIABILITIES	880,365	711,142
NET ASSETS	15,858,641	17,126,424
EQUITY		
Issued capital	42,673,992	42,673,992
Reserves	(246,382)	(572,538)
Accumulated Losses	(26,568,969)	(24,975,030)
TOTAL EQUITY	15,858,641	17,126,424

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

	Issued Capital	Share based payments Reserve	Other Reserve	Non- controlling interest	Accumulated Losses	Total
	\$	\$	\$	\$	\$	\$
Balance at 1 July 2012	36,022,046	1,192,445	-	391,283	(24,274,134)	13,331,640
Total comprehensive income for the period	-	-	-	-	(754,512)	(754,512)
Transactions with owners in their capacity as owners:						
Shares issued during the period	4,992,256	-	-	-	-	4,992,256
Share transaction costs during the period	(57,103)	-	-	-	-	(57,103)
Purchase of 49% Non-controlling interest	1,373,735	-	(982,453)	(391,283)	-	-
Stock options issued	-	386,884	-	-	-	386,884
Exercise of share options	355,904	(355,904)	-	-	-	-
Transfer of retained earnings	-	(750,365)	-	-	750,366	-
Dividends paid or provided for	-	-	-	-	-	-
Balance at 31 December 2012	42,686,838	473,060	(982,453)	-	(24,278,280)	17,899,165
Balance at 1 July 2013	42,673,992	409,914	(982,452)	-	(24,975,030)	17,126,424
Total comprehensive income for the period	-	-	-	-	(1,635,006)	(1,635,006)
Transactions with owners in their capacity as owners:						
Stock options issued	-	367,223	-	-	-	367,223
Transfer of retained earnings	-	(41,067)	-	-	41,067	-
Dividends paid or provided for	-	-	-	-	-	-
Balance at 31 December 2013	42,673,992	736,070	(982,452)	-	(26,568,969)	15,858,641

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE HALF YEAR ENDED 31 DECEMBER 2013**

	Consolidated Group	
	31.12.2013	31.12.2012
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from grants	595,332	240,054
Interest & other income received	1,326,159	2,406,775
Payments to suppliers and employees	(2,170,084)	(2,508,487)
Net cash provided (used) by in operating activities	(248,593)	138,342
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(816,126)	(26,469)
Net cash (used)/provided by in investing activities	(816,126)	(26,469)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	-	4,992,256
Share issue costs	-	(57,103)
Proceeds from borrowings	-	-
Hire purchase repayments	-	(148,086)
Net cash provided by financing activities		4,787,066
Net (decrease)/increase in cash held	(1,064,719)	4,898,939
Cash and cash equivalents at beginning of period	5,589,870	3,731,750
Cash and cash equivalents at end of period	4,525,151	8,630,689

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013

Note 1: Basis of Preparation

These general purpose financial statements for the half-year reporting period ended 31 December 2013 have been prepared in accordance with requirements of the *Corporations Act 2001* and AASB 134: Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial reporting standard IAS34 Interim Financial Reporting. The group is a for profit entity for financial reporting purposes under Australian Accounting standards.

This interim financial report is intended to provide users with an update on the latest annual financial statements of BluGlass Limited and its controlled entities (the Group). As such, it does not contain information that represents relatively insignificant changes occurring during the half year within the Group. It is therefore recommended that this financial report be read in conjunction with the annual financial report of the Group for the year ended 30 June 2013, together with any public announcements made during the half-year.

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

Significant Accounting Policies

The interim financial statements have been prepared in accordance with the accounting policies adopted in the Group's last annual financial statements for the year ended 30 June 2013, except for the applications of the following standards as of 1 January 2013:

- AASB 10 Consolidated Financial Statements;
- AASB 11 Joint Arrangements; and
- AASB 13 Fair Value Measurement.

The effects of applying these standards are described below.

AASB 10 Consolidated Financial Statements

AASB 10 supersedes AASB 127 *Consolidated and Separate Financial Statements* and Interpretation 112 *Consolidation – Special Purpose Entities*. AASB 10 revises the definition of control and provides extensive new guidance on its application. These new requirements have the potential to affect which of the Group's investees are considered to be subsidiaries and therefore change the scope of consolidation. The requirements on consolidation procedures, accounting for changes in non-controlling interests and accounting for loss of control of a subsidiary are unchanged.

Management has reviewed its control assessments in accordance with AASB 10 and has concluded that there is no effect on the classification (as subsidiaries or otherwise) of any of the Group's investees held during the period or comparative periods covered by these financial statements.

AASB 11 Joint Arrangements

AASB 11 supersedes AASB 131 *Interests in Joint Ventures* and Interpretation 113 *Jointly Controlled Entities – Non-monetary-Contributions by Venturers*. It aligns more closely the accounting by the investors with their rights and obligations relating to the joint management. In addition, AASB 131's option of using proportionate consolidation of joint ventures has been eliminated and the standard now requires the use of equity accounting method.

The application of AASB 11 has had no material impact on the financial statements of the Group.

AASB 13 Fair Value Measurement

AASB 13 clarifies the definition of fair value and provides related guidance and enhanced disclosures about fair value measurements. It does not affect which items are required to be fair-valued. AASB 13 applies prospectively for annual periods beginning on or after 1 January 2013.

The application of AASB 13 has had no material impact on the financial statements of the Group.

The financial statements of BluGlass Limited for the half year ended 31 December 2013 were authorised for issue in accordance with a resolution of the directors on 24 February 2013.

NOTES TO THE FINANCIAL STATEMENTS FOR THE HALF YEAR ENDED 31 DECEMBER 2013*Going Concern*

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

Note 2: Loss for the Period

	Consolidated Group	
	31.12.2013	31.12.2012
The following revenue and expense items are relevant in explaining the financial performance for the interim period:		
Grant revenue	595,332	240,054
R&D Tax rebate	1,232,372	2,349,139
	<hr/>	<hr/>

Note 3: Dividends

There were no dividends paid or declared during the period.

Note 4: Operating Segments

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

Note 5: Contingent liabilities

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

Note 6: Events subsequent to reporting date

There were no events subsequent to reporting date.

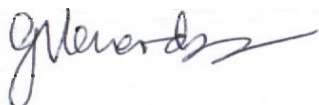
DIRECTORS' DECLARATION

The directors of the company declare that:

1. the financial statements and notes as set out on pages 7 to 12 are in accordance with the Corporations Act 2001 and:
 - (a) comply with Accounting Standards AASB 134 Interim Financial Reporting; and
 - (b) give a true and fair view of the financial position as at 31 December 2013 and of the performance for the half year ended on that date.
2. in the directors' opinion there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable.

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

Dated this 24th day of February 2014



Director **George Venardos**

Dated this 24th day of February 2014

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

We have reviewed the accompanying half-year financial report of BluGlass Limited (“Company”), which comprises the consolidated financial statements being the statement of financial position as at 31 December 2013, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors’ declaration of the consolidated entity, comprising both the Company and the entities it controlled at the half-year’s end or from time to time during the half-year.

Directors’ responsibility for the half-year financial report

The directors of BluGlass Limited are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such controls as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express a conclusion on the consolidated half-year financial report based on our review. We conducted our review in accordance with the Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the BluGlass Limited consolidated entity’s financial position as at 31 December 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of BluGlass Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001.



GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



G S Layland
Director - Audit & Assurance

Sydney, 24 February 2014