Appendix 4E

BLUGLASS LIMITED

ACN	Full Year Ended
116825793	**30 June 2010**
	Corresponding period was the twelve months ended 30 June 2009

Results for announcement to the market

RESULTS

		%		$A
Revenues from ordinary activities	Down	47	to	104,583
Profit/(Loss) from ordinary activities after tax attributable to members	Down	37	to	(5,348,717)
Profit/(Loss) for the period attributable to members	Down	37	to	(5,348,717)

EPS

Earnings per Security (cents per share)	**30 Jun 2010**	**30 Jun 2009**
Basic loss per share (cents per share)	(2.82) cents	(5.06) cents
Diluted loss per share (cents per share)	(2.82) cents	(5.06) cents

Net Tangible Asset Backing	**30 Jun 2010**	**30 Jun 2009**
Per Ordinary Security (cents per share)	3.33 cents	4.37 cents

Dividend Payable

No dividends have been paid or declared during the period.

Dividend Re-investment Plan

There is no dividend re-investment plan in operation.

Control gained over entities having material effect

Name of entity (or group of entities)	NIL

Loss of control of entities having material effect

Name of entity (or group of entities)	NIL

Details of associates and joint venture entities

Name of entity (or group of entities)	NIL

This report is based on the Full Year Financial Report which is in the process of being audited. All the documents comprise the information required by Listing Rule 4.2A. Although the audit report has not been issued to date the Directors do not expect any dispute or qualifications by the auditors.

BluGlass Limited and Controlled Entities

ABN 20 116 825 793

Preliminary Annual Financial Report

1. Review of Operations

The consolidated loss amounted to $5,348,717 (2009 loss of $8,443,280) and represented a loss per share of 2.82 cents.

Of the above loss, non-cash expenses including depreciation and employee option expense amounted to $2,229,349.

Cash used in operations and investment in capital equipment amounted to $4,265,931 (2009: $3,898,979).

Cash required for operational expenses was $403,465 per month on average, (2009: $392,656).

Investment in research and development under the Commercial Ready Grant guidelines was $1,352,854. This Grant was closed out in May 2010. Research and development investment under the new Climate Ready Grant guidelines, awarded in October 2009, amounted to $1,587,114.

As at 30 June 2010, BluGlass employed 16 staff and 4 non-executive directors.

TECHNOLOGY AND COMMERCIAL UPDATE

During the year significant progress has been made in the enhancement and process development of RPCVD technology and its path to commercialisation in both of the companies target markets, LED and PV. In particular, BluGlass was able to expand its operations considerably as effort is directed towards the development of 'pug and play' deposition equipment to meet the current MOCVD benchmark in performance and scale as a market entry point into the highly concentrated semiconductor equipment market.

- In July, BluGlass received capital raising commitments from existing shareholders, institutional and sophisticated investors to raise a total of $4.247 million, before costs.
- In October the company won $4.95 million cash matched government backing under the Climate Ready program to assist with the development and commercialisation of its high efficiency thin film solar cell technology. This project looks to deliver a high efficiency solar cell using RPCVD to produce InGaN solar cells capable of converting almost the full solar spectrum into useable energy.

This expansion capital and government funding has already enabled the following:

- In October, Dr. Ian Mann (PhD, MBA, BEng, GAICD) joined the company as Chief Operations and Technology Officer to manage and implement the BluGlass Technology roadmap.
- In November, LED expert Dr. Alan Li joined the BluGlass Board of Directors bringing with him a wealth of industry experience both technical and commercial.
- BluGlass also announced in April the appointment of a new CFO, Stuart Uhlhorn, a financial and commercial executive with extensive experience in financial management, marketing and joint venture management.
- Also in April BluGlass announced that George Venardos was appointed Chairman, as Dr. Michael Taverner, foundation Chairman retired from the Board of Directors.
- In April, BluGlass entered into a Research Collaboration with *the Group d'Etude des Semi-conducteurs (GES)* part of the CNRS (The National Centre of Scientific Research) and the University of Montpellier, France to undertake a detailed study of nitrides and their applications.
- Also in April, BluGlass announced that it had signed a Memorandum of Understanding (MOU) with US based technology company, Nth Degree Technologies Worldwide Inc.
- As at 30 June 2010, 14 patents have now been granted or accepted in key semiconductor markets including Japan, the USA and China amongst others.
- In June, BluGlass also secured a $1.5 million facility from the Commonwealth Bank of Australia (CBA). BluGlass has entered into this agreement with the CBA which unlock up to $1.5 million in cash, equivalent to the agreed value of certain existing equipment and assets owned by the company to allow further capital assets to be acquired.
- Subsequent to the end of year, BluGlass has also installed and commissioned a 5th generation RPCVD tool, the most advanced and versatile RPCVD tool to be commissioned onsite as its Silverwater facility. The commissioning of this new tool is part of the technologies focus to deliver a 'plug and play', ready for work deposition system with optimal process control capable of producing high quality commercial single crystal wafers at lower temperatures and lower cost for the LED and PV industries.

BluGlass intends to become a significant provider of Chemical Vapour Deposition equipment in the rapidly growing equipment market. The market is currently dominated by two MOCVD equipment producer. The demand for high brightness LEDs will grow by 61% in 2010 and supply in unlikely to keep up, creating an opportunity for new manufacturers and new tool makers. (Source IMS Research).

The BluGlass Management and Technology teams have a very clear view to the future and will position BluGlass to take advantage of the growing LED and PV markets in order to maximise shareholder return.

BluGlass will continue to deliver on:

- A new generation tool to accelerate the technology roadmap
- A strategic, industry partner to assist with the technology roadmap and market access
- A global patent portfolio
- Early adopter customers and scale up to full production

These developments, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of the consolidated entity's long-term goals and development of new business opportunities.

FINANCIAL POSITION

The net assets of the consolidated entity have decreased by $910,658 from 30 June 2009 to $15,089,421. This reduction does not reflect the increasing number of patent applications and patents granted during the period, the value of which is not included in the valuation of the intangible IP portfolio.

The consolidated entity's financial position continues to enable BluGlass Limited to continue a very focused technical development and commercialisation strategy. BluGlass Limited has invested in expert personnel, strategic infrastructure and a new industry standard reactor built to secure its long term success.

In July 2009, the company completed a successful equity placement to raise $4,247,356. 24,984,444 shares were issued representing 14.95% of the company's capital. The directors believe the group is in a strong and stable financial position where numerous capital raising options are available within the next six months to expand and grow the current operations in line with the revised commercialisation milestones.

2. Annual Accounts and Notes

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity	
		2010	2009
		$	$
Revenue	2	104,583	196,662
Other income	2	1,617,624	1,648,361
Employee benefits expense		(2,428,822)	(2,592,227)
Professional fees		(59,961)	(46,800)
Board and secretarial fees		(267,991)	(259,306)
Corporate compliance & legal expense		(276,337)	(129,421)
Consultant fees		(459,235)	(545,112)
Rent expense		(206,781)	(208,233)
Travel and accommodation expense		(145,488)	(187,871)
Marketing expense		(57,088)	(188,274)
Consumables		(669,496)	(507,945)
Depreciation and amortisation expense		(1,799,641)	(1,582,053)
Impairment expense	3	-	(3,435,080)
Other expenses		(700,084)	(605,981)
Loss before income tax	3	**(5,348,717)**	**(8,443,280)**
Income tax expense	4	-	-
Loss attributable to members		**(5,348,717)**	**(8,443,280)**
Other comprehensive income		**-**	**-**
Total comprehensive loss		**(5,348,717)**	**(8,443,280)**
Basic loss per share (cents per share)	7	(2.82)	(5.06)
Diluted loss per share (cents per share)	7	(2.82)	(5.06)
Dividends per share (cents)		N/A	N/A

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Entity	
		2010	**2009**
		$	**$**
Current Assets			
Cash and cash equivalents	**8**	3,017,339	2,174,918
Inventories	**9**	165,338	156,397
Other current assets	**10**	252,545	219,192
TOTAL CURRENT ASSETS		**3,435,222**	**2,550,507**
Non-Current Assets			
Property, plant and equipment	**11**	4,619,853	5,270,421
Intangible assets	**12**	8,695,000	8,695,000
TOTAL NON-CURRENT ASSETS		**13,314,853**	**13,965,421**
TOTAL ASSETS		**16,750,075**	**16,515,928**
Current Liabilities			
Trade and other payables	**14**	298,675	283,204
Short-term provisions	**16**	120,840	91,506
Short-term borrowings	**15**	528,000	-
TOTAL CURRENT LIABILITIES		**947,515**	**374,710**
Non Current Liabilities			
Long-term provisions	**16**	141,139	141,139
Long-term Borrowings	**15**	572,000	-
TOTAL NON-CURRENT LIABILITIES		**713,139**	**141,139**
TOTAL LIABILITIES		**1,660,654**	**515,849**
NET ASSETS		**15,089,421**	**16,000,079**
Equity			
Issued capital	**17**	31,132,547	27,124,196
Reserves	**18**	3,065,080	2,635,372
Accumulated Losses		(19,108,206)	(13,759,489)
TOTAL EQUITY		**15,089,421**	**16,000,079**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Issued Capital	Option Reserve	Accumulated Losses	Total
	$	$	$	$
Consolidated Entity				
Balance at 30 June 2008	27,006,696	1,916,820	(5,316,209)	23,607,307
Total comprehensive income for the period	-	-	(8,443,280)	(8,443,280)
Transactions with owners in their capacity as owners				
Shares issued during the year	117,500	-	-	117,500
Stock options issued	-	718,552	-	718,552
Dividends paid or provided for	-	-	-	-
Balance at 30 June 2009	27,124,196	2,635,372	(13,759,489)	16,000,079
Balance at 1 July 2009	27,124,196	2,635,372	(13,759,489)	16,000,079
Total comprehensive income for the period	-	-	(5,348,717)	(5,348,717)
Transactions with owners in their capacity as owners				
Shares issued during the year	4,247,356	-	-	4,247,356
Transaction costs	(239,005)	-	-	(239,005)
Stock options issued	-	429,708	-	429,708
Dividends paid or provided for	-	-	-	-
Balance at 30 June 2010	31,132,547	3,065,080	(19,108,206)	15,089,421

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Entity	
		2010	**2009**
		$	**$**
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from grants		1,617,624	1,648,361
Interest received		104,583	196,662
Payments to suppliers and employees		(4,839,067)	(4,711,869)
Net cash used in operating activities	**21**	**(3,116,860)**	**(2,866,846)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,149,071)	(1,032,133)
Net cash used in investing activities		**(1,149,071)**	**(1,032,133)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		4,247,357	30,000
Share issue transaction costs		(239,005)	-
Proceeds from borrowings		1,100,000	-
Net cash provided by financing activities		**5,108,352**	**30,000**
Net increase/(decrease) in cash held		842,421	(3,868,979)
Cash at beginning of financial year		2,174,918	6,043,897
Cash at end of financial year	**8**	**3,017,339**	**2,174,918**

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001.*

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

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

Reporting Basis and Conventions

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.

(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.

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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) **Income Tax (Continued)**

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%*
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.

(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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(e) **Leases (continued)**

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 an impairment has arisen. Impairment losses are recognised in the statement of comprehensive income.

(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 as 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(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.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(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) **Comparative Figures**

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

(q) **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 Cox –Ross-Rubenstein Binomial model. The prior year options were valued at grant date using the Black-Scholes option pricing model. 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(r) **Adoption of New and Revised Accounting Standards**

During the current year the Group adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial report of BluGlass Limited.

AASB 3: Business Combinations

In March 2008 the Australian Accounting Standards Board revised AASB 3 and as a result, some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009

The Group has not acquired any entities since that time and the adoption of this Standard has no impact on this financial report.

AASB 8: Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments — AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114, segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments consistent with the prior year.

Disclosure impact

There were no additional quantitative or qualitative disclosures required. This information is now disclosed as part of the financial statements.

AASB 101: Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101 and as a result, there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes — the revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity — the revised AASB 101 requires all changes in equity arising from transactions with owners, in their capacity as owners, to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the statement of comprehensive income. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Statement of comprehensive income — the revised AASB 101 requires all income and expenses to be presented in either one statement, the statement of comprehensive income, or two statements, a separate income statement and a statement of comprehensive income. The previous version of AASB 101 required only the presentation of a single income statement.

The Group's financial statements now contain a statement of comprehensive income.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Other comprehensive income — The revised version of AASB 101 introduces the concept of 'other comprehensive income' which comprises of income and expenses that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the statement of comprehensive income. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(s) **New Accounting Standards for Application in Future Periods**

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

- AASB 9: Financial Instruments and AASB 2009–11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013).

  These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined the potential impact on the financial statements.

  The changes made to accounting requirements include:

  — simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value;

  — simplifying the requirements for embedded derivatives;

  — removing the tainting rules associated with held-to-maturity assets;

  — removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;

  — allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument; and

  — reclassifying financial assets where there is a change in an entity's business model as they are initially classified based on:

    a. the objective of the entity's business model for managing the financial assets; and

    b. the characteristics of the contractual cash flows.

- AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009–4: Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

  These standards detail numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. No changes are expected to materially affect the Group.

- AASB 2009–8: Amendments to Australian Accounting Standards — Group Cash-settled Share-based Payment Transactions [AASB 2] (applicable for annual reporting periods commencing on or after 1 January 2010).

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence, these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

- AASB 2009–9: Amendments to Australian Accounting Standards — Additional Exemptions for First-time Adopters [AASB 1] (applicable for annual reporting periods commencing on or after 1 January 2010).

  These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets, and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

- AASB 2009–10: Amendments to Australian Accounting Standards — Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010).

  These amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. These amendments are not expected to impact the Group.

- AASB 2009–12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of International Financial Reporting Standards by the IASB. The standard also amends
  AASB 8 to require entities to exercise judgment in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. These amendments are not expected to impact the Group.

- AASB 2009–13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010).

  This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This standard is not expected to impact the Group.

- AASB 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).

  This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan. This standard is not expected to impact the Group.

- AASB Interpretation 19: Extinguishing Financial Liabilities with Equity Instruments (applicable for annual reporting periods commencing on or after 1 July 2010).

  This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

  The Group does not anticipate the early adoption of any of the above Australian Accounting Standards.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(t) **Going Concern**

Notwithstanding the net loss for the year and the accumulated losses for the consolidated entity, the directors have performed a review of the cash flow forecasts and have considered the cash flow needs and consider the company a going concern.

The directors have approved the company's forward business plans with an understanding that execution of the plans will require an additional capital injection during the next six to twelve months.

The directors have prepared the financial statements on a going concern basis as the company has a number of options for raising this capital and the directors are confident that one or more of these options will be successful during the period. Additionally fall back equity based funding options are available to the company to continue its research and development efforts.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 2: Revenue and Other Income

	Consolidated Entity	
	2010	**2009**
	$	**$**
Revenue		
— interest received from other persons	104,583	196,662
Total Revenue	104,583	196,662
Other Income		
— grant revenue	1,617,024	1,645,955
— sundry income	600	2,406
Total interest revenue	1,617,624	1,648,361

Note 3: Loss for the year

	Consolidated Entity	
Expenses:	**2010**	**2009**
	$	**$**
Rental Expense on operating leases		
— Minimum lease payments	206,781	208,233
Impairment of in process research	-	3,435,080

Note 4: Income Tax Expense

	Consolidated Entity	
	2010	**2009**
	$	**$**
(a) The components of tax expense comprise:		
— Current tax	-	-
— Deferred tax	-	-
	-	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 4: Income Tax Expense (Cont).

		Consolidated Entity	
		2010	**2009**
		$	**$**
(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% (2008: 30%)		
	— consolidated entity	(1,604,615)	(2,532,984)
	Add:		
	Tax effect of:		
	— IPO related costs(deductible over 5 years)	92,709	78,369
	— share options expensed during year	128,912	215,566
	— other non-allowable items	74,812	85,509
		296,433	379,444
	Add:		
	Income tax benefit not bought to account	(1,308,182)	(2,153,540)
	Income tax benefit attributable to the entity	-	-
	Accumulated tax losses not brought to account	4,699,792	3,391,610

Note 5: Interests of Key Management Personnel

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

(a) The totals of remuneration paid to KMP of the Group during the year are as follows.

	2010	**2009**
	$	**$**
Short term employee benefits	806,919	721,972
Post-employment benefits	97,499	61,863
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	156,600	477,775
	1,061,018	1,261,610

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 5: Interest of Key Management Personnel (Cont).

(b) **Option Holdings**

30 June 2010

	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercise-able	Vested and unexercis-eable
George Venardos	-	-	-	-	-	-	-	-
Gregory Cornelsen	-	-	-	-	-	-	-	-
Chandra Kantamneni	-	-	-	-	-	-	-	-
Alan Li	-	-	-	-	-	-	-	-
Michael Taverner	-	-	-	-	-	-	-	-
Giles Bourne	3,445,274	900,000	-	-	4,345,274	103,425	341,850	-
Stuart Uhlhorn	-	500,000	-	-	500,000	-	-	-
Ian Mann	-	500,000	-	-	500,000	-	-	-
Geoff King	1,047,945	1,000,000	-	-	2,047,945	349,315	698,630	-
	4,493,219	2,900,000	-	-	7,393,219	452,740	1,040,480	-

30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercise-able	Vested and unexercis-able
Michael Taverner	1,100,000	-	-	(1,100,000)	-	-	-	-
David Jordan	1,000,000	-	-	(1,000,000)	-	-	-	-
Gregory Cornelsen	500,000	-	-	(500,000)	-	-	-	-
Chandra Kantamneni	500,000	-	-	(500,000)	-	-	-	-
Giles Bourne	360,274	3,085,000	-	-	3,445,274	188,425	238,425	-
Scott Butcher	691,096	-	-	(691,096)	-	-	-	-
Geoff King	1,072,945	-	-	(25,000)	1,047,945	349,315	349,315	-
	5,224,315	3,085,000	-	(3,816,096)	4,493,219	537,740	587,740	-

(c) **Number of Shares held by Key Management Personnel**

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
George Venardos	-	-	-	294,118	294,118
Gregory Cornelsen	525,000	-	-	352,941	877,941
Chandra Kantamneni	-	-	-	117,647	117,647
Michael Taverner	327,500	-	-	294,118	621,618
Giles Bourne	32,750	-	-	117,647	150,397
Geoff King	78,302	-	-	117,647	195,949
	963,552	-	-	1,294,118	2,257,670

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 5(c): Number of Shares held by Key management Personnel (Cont).

30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Michael Taverner	287,500	-	-	40,000	327,500
Gregory Cornelsen	525,000	-	-	-	525,000
Giles Bourne	-	-	-	32,750	32,750
Geoff King	-	-	-	78,302	78,302
	812,500	-	-	151,052	963,552

(d) **Other Key Management Personnel Transactions**

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other Key Management Personnel refer to Note 23: Related Party Transactions

Note 6: Auditors' Remuneration

	Consolidated Entity	
	2010 **$**	**2009** **$**
Remuneration of the auditor for:		
— auditing or reviewing the financial report	37,500	33,500
— taxation services	6,480	9,600
— Other audit services	6,750	3,000
	50,730	46,100

Note 7: Loss per Share

		Consolidated Entity	
		2010 **$**	**2009** **$**
(a)	Reconciliation of Earnings per share to Loss		
	Loss	(5,348,717)	(8,443,280)
(b)	Basic and diluted loss per share (cents per share)	(2.82)	(5.06)
		No.	**No.**
(c)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS.	189,602,420	166,712,598
(d)	Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS.	189,602,420	166,712,598

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 7: Loss per Share (continued)

		Consolidated Entity	
		2010	**2009**
		$	**$**
(e)	Weighted average number of potential ordinary shares not included in diluted EPS as anti-dilutive.	7,711,469	6,568,841

Note 8: Cash and Cash Equivalents

	Consolidated Entity	
	2010	**2009**
	$	**$**
Cash at bank and in hand	2,956,665	2,154,143
Short-term bank deposits	59,050	20,345
Petty cash	1,624	430
	3,017,339	2,174,918

The effective interest rate on short-term bank deposits was 4.4%; these deposits have an average maturity of less than14 days.

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	3,017,339	2,174,918
	3,017,339	2,174,918

Note 9: Inventories

	Consolidated Entity	
	2010	**2009**
	$	**$**
CURRENT		
Raw Materials and Stores (at cost)	165,338	156,397
	165,338	156,397

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 10: Other Current Assets

	Consolidated Entity	
	2010	**2009**
	$	**$**
CURRENT		
Prepayments	232,230	206,805
Security deposit	10,916	10,916
Other receivables	9,399	1,471
	252,545	219,192

Note 11: Plant and Equipment

	Consolidated Entity	
	2010	**2009**
	$	**$**
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	4,772,196	4,644,798
Accumulated depreciation	(2,191,676)	(1,325,826)
Total plant and equipment:	2,580,520	3,318,972
Leased plant and equipment		
At cost	1,000,000	-
Accumulated depreciation	-	-
Total leased plant and equipment	1,000,000	-
Leasehold improvements		
At cost	2,762,392	2,762,392
Accumulated depreciation	(1,837,196)	(939,266)
Total leasehold improvements	925,196	1,823,126
Furniture and fittings		
At cost	114,438	114,012
Accumulated depreciation	(33,445)	(22,024)
Total furniture and fittings	80,993	91,988
Computer equipment		
At cost	104,778	83,530
Accumulated depreciation	(71,634)	(47,195)
Total computer equipment	33,144	36,335
Total property, plant and equipment	4,619,853	5,270,421

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 11: Plant & Equipment (continued)

(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 2009	-	3,318,972	1,823,126	91,988	36,335	5,270,421
Additions	1,000,000	1,127,399	-	426	21,248	2,149,073
Disposals	-	(1,000,000)	-	-	-	(1,000,000)
Depreciation expense	-	(865,851)	(897,930)	(11,421)	(24,439)	(1,799,641)
Balance at 30 June 2010	1,000,000	2,580,520	925,196	80,993	33,144	4,619,853

Note 12: Intangible Assets

	Parent Entity	
	2010 $	**2009** $
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

The company obtained a valuation of the intellectual property from an independent valuer 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 5 years and extrapolated for a further 5 years by the valuer. Greater than 5 years is appropriate based on the expected life cycle of the technology. The DCF has been discounted at between 15% and 18% (2009:15% to 18%). Other general market considerations have been considered including the market capitalisation of BluGlass. The IP was assessed to have a value of $12.2 million but the directors have resolved not to reverse last year’s impairment.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 13: Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2010	2009
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	-

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

No acquisitions or disposals of controlled entities during the year.

BluGlass Research Pty Ltd was incorporated on 18 June 2009.

Note 14: Trade and Other Payables

	Consolidated Entity 2010 $	2009 $
CURRENT		
Trade payables	67,154	116,147
Sundry payables and accrued expenses	231,521	167,057
	298,675	283,204

Note 15: Borrowings

	Note	Consolidated Entity 2010 $	2009 $
CURRENT			
Lease liability		528,000	-
Total current borrowing		528,000	-
NON-CURRENT			
Lease liability		572,000	-
Total non-current borrowings		572,000	-
Total borrowings	19(a)	1,100,000	-

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 16: Provisions

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
Current	120,840	91,506
Non-Current	141,139	141,139
	261,979	232,645

	Lease Make Good $	Employee Benefits $	Total $
Consolidated Group			
Opening balance at 1 July 2009	141,139	91,506	232,645
Additional provisions	-	29,334	29,334
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Balance at 30 June 2010	141,139	120,840	261,979

Note 17: Issued Capital

	Consolidated Entity 2010 $	Consolidated Entity 2009 $
192,115,857 (2009: 167,131,413) fully paid ordinary shares	31,132,547	27,124,196
	31,132,547	27,124,196

The company has authorised share capital amounting to 192,115,857 ordinary shares.

(a) **Ordinary Shares**	No.	No.
At the beginning of reporting period	167,131,413	166,537,966
Shares issued:		
— 12 August 2008	-	125,000
— 11 May 2009	-	443,447
— 1 June 2009	-	25,000
— 1 August 2009	24,984,444	-
At reporting date	192,115,857	167,131,413

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.

Note 17: Issued Capital (continued)

(b) **Options**

i. 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.

ii. For information relating to share options issued to key management personnel during the financial year, refer to Note 5 Interests of Key Management Personnel.

(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

Option Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

Note 19: Capital and Leasing Commitments

	Consolidated Entity	
	2010	**2009**
	$	**$**
(a) Finance Lease Commitments		
Commonwealth Bank hire purchase lease for research and development equipment.		
Payable- minimum lease payments		
— not later than 12 months	570,066	-
— between 12 months and 5 years	617,572	-
Minimum lease payments	1,187,638	-
Less future finance charges	(87,638)	-
Present value of minimum lease payments	1,100,000	-
(b) 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	171,769	135,386
— Between 12 months and 5 years	271,967	-
— greater than 5 years	-	-
	443,736	135,386

The option to renew the current lease for an additional term of three years from March 2010 was exercised. The property lease is a non-cancellable lease with a three 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 3.5% per annum. The lease does not allow for subletting of any lease areas.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 19: Capital and Leasing Commitments (continued)

(c) Other Commitments:

BluGlass has entered into research collaboration with Macquarie University and the Australian National University through an ARC Linkage Grant. BluGlass is committed to a cash contribution of $100,000 per annum for the next year.

BluGlass has entered into research collaboration with the University of Technology Sydney through an ARC Linkage Grant. BluGlass is committed to a cash contribution of $50,000 per annum for the next year.

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 Groups 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) in Australia.

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	
		2010	2009
		$	$
(a)	**Reconciliation of Cash Flow from Operations with Loss after Income Tax**		
	Loss after income tax	(5,348,717)	(8,443,280)
	Non-cash flows in loss		
	Impairment	-	3,435,080
	Depreciation expense	1,799,641	1,582,053
	Share options expensed	429,708	718,552
	Other Non-cash items	-	111,467
	Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
	(Increase)/decrease in trade and term receivables	(7,405)	191,509
	(Increase)/decrease in prepayments	(25,425)	(146,552)
	(Increase)/decrease in inventory	(8,941)	(22,782)
	Increase/(decrease) in trade payables and accruals	14,945	(453,473)
	Increase/(decrease) in provisions	29,334	160,580
	Cash flow from operations	(3,116,860)	(2,866,846)

(b) **Non-cash Financing and investing activities**

(i) Options granted

5,620,000 share options were granted to employees under the BluGlass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.17 each. Also 175,000 options were forfeited or lapsed during the year. Expense for the year was $429,708.

(c) **Loan Facilities**

	2010	2009
Hire purchase facility	1,500,000	-
Amount utilised	(1,100,000)	-
	400,000	-

The hire purchase facility expires in July 2012. The agreement can be terminated by either party with 1 month prior notice to the other party. Interest rate is fixed for the full term of the lease. The current rate is 7.8%.

Note 22: Share-based Payments

The following share-based payments existed at 30 June 2010:

On 28 January 2010, 25,000 share options were forfeited following the resignations of an employee

On 1 March 2010, 150,000 share options lapsed following the expiry of the options.

On 29 April 2010, 5,620,000 share options were granted to employees under the Bluglass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.17 each. The options vest in two equal tranches 50% of options will vest when the BluGlass Ltd share price attains a 5 day VWAP(Volume Weighted Average Price) of $0.21 and the other 50% of options will vest when the BluGlass Ltd share price attain a 5 day VWAP of $0.34.

	Consolidated Entity			
	2010		2009	
	Number of Options	**Weighted Average Exercise Price $**	**Number of Options**	**Weighted Average Exercise Price $**
Outstanding at the beginning of the year	6,802,122	0.43	7,593,218	0.31
Granted	5,620,000	0.17	3,125,000	0.48
Forfeited	(25,000)	0.39	(766,096)	0.39
Exercised	-	-	(25,000)	0.20
Expired	(150,000)	0.20	(3,125,000)	0.20
Outstanding at year-end	12,247,122	0.31	6,802,122	0.43
Exercisable at year-end	2,459,748	0.38	1,450,707	0.35

No employee options were exercised during the year ended 30 June 2010.

The options outstanding at 30 June 2010 had a weighted average share price of $0.31 and a weighted average remained contractual life of 2.7 years. (Option prices were $0.43 in respect of options outstanding at 30 June 2009).

The weighted average fair value of the options granted during the year was $0.054.

This price was calculated by using a Cox-Ross- Rubenstein binomial option pricing model applying the following inputs:

Weighted average exercise price	$0.31
Weighted average life of the options	2.7 years
Underlying average share price	$0.14
Expected share price volatility	70%
Risk free interest rate	5.27%

Historical volatility for BluGlass share price movement has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

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

Included under employee benefits expense in the income statement relating to share-based payment is $429,708 (2009: $718,552) and relates, in full, to equity-settled share-based payment transactions.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 23: Related Party Transactions

	Consolidated Entity	
	2010	**2009**
	$	**$**
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated		
Transactions with related parties:		
Other Related Parties		
Macquarie ARC Linkage Grant Collaboration	100,000	100,000
	100,000	100,000

Key Management Personnel have no related party transactions.

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 Group	
		2010	**2009**
Financial Assets			
Cash and cash equivalents	8	3,017,339	2,174,918
		3,017,339	2,174,918
Financial Liabilities			
Trade and other payables	14	298,675	283,204
Borrowings	15	1,100,000	-
		1,398,675	283,204

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2009

Note 24: Financial Risk Management (Cont.)

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 risks 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.

(c) *Liquidity Risk*

The consolidated entity manages liquidity risk by monitoring forecast cash flows and ensuring that cash reserves are invested to ensure adequate availability.

(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.

(il) *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**	
	2010 %	**2009 %**	**2010 $**	**2009 $**
Consolidated Entity				
Financial Assets:				
Cash	2.27	3.22	60,674	177,671
Investments in term deposits and bank bills	4.40	5.44	2,956,665	1,997,247
Total Financial Assets			3,017,339	2,174,918

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 24: Financial Risk Management (Cont.)

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

(ii) *Financial instrument composition and maturity analysis*

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

(iii) *Net Fair Values*

All financial assets and liabilities at 30 June 2010 have maturities of less than 45 days and carrying value represents net fair value.

(iv) *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 include:

— The lease for 74 Asquith Street is supported by a CBA bank guarantee for $150,000. Collateral for the bank guarantee is a set-off against cash invested with the CBA for $100,980.

Note 26: Events after Balance Sheet Date

No events after balance sheet date.

Note 27: BluGlass Ltd Parent Company Information

	2010	2009
	$	$
Parent entity		
Assets		
Current assets	3,476,579	2,592,747
Non-current assets	13,448,623	14,099,191
Total assets	16,925,202	16,691,938
Liabilities		
Current liabilities	953,217	380,783
Non-current liabilities	713,139	141,139
Total liabilities	1,666,356	521,922
Net Assets	15,258,846	16,170,016
Equity		
Issued capital	31,132,547	27,124,196
Retained earnings	(18,938,781)	(13,589,552)
Reserves		
Share option reserve	3,065,080	2,635,372
Total Equity	15,258,846	16,170,016

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

Note 27: BluGlass Ltd Parent Company Information (continued)

Financial performance		
Loss for the year	(5,349,230)	(8,443,685)
Other comprehensive income	-	-
Total comprehensive income	(5,349,230)	(8,443,685)

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