# Appendix 4E

## BLUGLASS LIMITED

| ACN | Full Year Ended |
|---|---|
| **116825793** | **30 June 2011** |
| | *Corresponding period was the twelve months ended 30 June 2010* |

### Results for announcement to the market

### RESULTS

| | | % | | $A |
|---|---|---|---|---|
| Revenues from ordinary activities | Up | 21 | to | 2,085,101 |
| Profit/(Loss) from ordinary activities after tax attributable to members | Down | 22 | to | (4,170,625) |
| Profit/(Loss) for the period attributable to members | Down | 22 | to | (4,170,625) |

### EPS

| Earnings per Security (cents per share) | 30 Jun 2011 | 30 Jun 2010 |
|---|---|---|
| Basic loss per share (cents per share) | (1.84) cents | (2.82) cents |
| Diluted loss per share (cents per share) | (1.84) cents | (2.82) cents |

### Net Tangible Asset Backing

| | 30 Jun 2011 | 30 Jun 2010 |
|---|---|---|
| Per Ordinary Security (cents per share) | 3.30 cents | 3.33 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

| | |
|---|---|
| On 30 August 2010, BluGlass Limited and SPP Process Technology Systems Ltd (SPTS) established a joint venture entity -EpiBlu Technologies Pty Ltd. BluGlass has 51% ownership interest and has the power to govern the financial and operating policies so as to obtain benefits from the entities activities. | (3,769,299) |

### 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. This information should be read in conjunction with the Full Year Financial Report and the 30 June 2011 Annual Financial Report. No matters have arisen which would result in a dispute or qualification.*

# BluGlass Limited and Controlled Entities

ABN 20 116 825 793

# Preliminary Annual Financial Report

# 1. Review of Operations

Revenue has increased by $362,894, up 21% to $2,085,101 due to the following factors:

- Receipts from the Commonwealth Climate Ready Grant increased by $240,901 reflecting the company's increased spending on the photovoltaic project as per its grant agreement;
- Interest income has increased by $121,993, up 117% following the injection of equity funds from SPTS that allowed more cash to be held on short term deposits.

Gross expenditure has increased on a consolidated basis by $1,029,307, up 14.6% to $8,100,231 due to following factors:

- Research and development investment under the Climate Ready Grant guidelines, awarded in October 2009, amounted to $3,636,002, (2010: $1,587,114).
- Non-cash expenses including depreciation and employee option expense amounted to $2,211,726 (2010 $2,229,353).
- EpiBlu Technologies Pty Ltd (the new JV subsidiary, EpiBlu) commenced operations in October 2010 bringing a new research tool into operation.

Cash required for operational expenses, repayment of borrowings and capital expenditure before the allocation to non-controlling interest in EpiBlu averaged $378,855 per month, (2010: $355,494). The increase due to the following factors:

- Increased expenditure on the BluGlass PV project.
- Accelerated research in the JV company EpiBlu on RPCVD technology;

Overall cash expenditure incurred by members of the parent entity has decreased as the joint venture company with SPTS, EpiBlu is now undertaking the majority of the research into RPCVD technology and SPTS contribute to 49% of the expenses;

- EpiBlu cash expenses in the consolidated result totalled $3,119,243, of which SPTS's contributed $1,528,429 or $169,825 over 9 months since (since JV incorporation)
- BluGlass resulting average cashburn for the 12 month ended 30 June 2011 amounted to $251,486 after taking into account SPTS's average contribution. This is well below $355,494 in 2010 particularly considering that research and development investment has increased by $2,048,888 compared to the prior year.

The consolidated loss after non-controlling interests amounted to $4,170,626 (2010: loss of $5,348,717). This result was able to be achieved against a background of increased expenditure on research and development due to the operations of the EpiBlu joint venture.

The company's financial position has strengthened during the period with the net assets of the consolidated entity increasing by $1,522,180 from 30 June 2010 to $16,611,601 due to the following:

- Share placement of 19.9% to SPTS raising $5.3 million, before costs.
- SPTS contributing to 49% of the RPCVD research in EpiBlu.
- The cash balance includes $1,605,882 of shareholder loans from SPTS that are intended to meet operating expenses in EpiBlu during the current financial year. It is expected these funds will be converted to equity in EpiBlu during the same period.

The statement of Financial Position does not include a value for the increasing number of patent applications and patents granted during the period since listing on the ASX in 2006.

# 2. Annual Accounts and Notes

## STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated Entity | |
|---|---|---|---|
| | | 2011 $ | 2010 $ |
| Revenue | 2 | 226,576 | 104,583 |
| Other income | 2 | 1,858,525 | 1,617,624 |
| Employee benefits expense | 17 | (2,351,687) | (2,422,863) |
| Professional fees | | (49,800) | (59,961) |
| Board and secretarial fees | | (301,656) | (267,991) |
| Corporate compliance & legal expense | | (121,933) | (276,337) |
| Consultant fees | | (339,748) | (459,235) |
| Rent expense | | (273,996) | (206,781) |
| Travel and accommodation expense | | (205,850) | (145,488) |
| Marketing expense | | (51,311) | (57,088) |
| Consumables | | (1,560,523) | (669,496) |
| Depreciation and amortisation expense | | (2,158,033) | (1,799,641) |
| Other expenses | | (685,694) | (706,043) |
| **Loss before income tax** | 3 | **(6,015,130)** | **(5,348,717)** |
| Income tax expense | 4 | - | - |
| **Loss for the period** | | **(6,015,130)** | **(5,348,717)** |
| **Other comprehensive income** | | **-** | **-** |
| **Total comprehensive income** | | **(6,015,130)** | **(5,348,717)** |
| | | | |
| **Loss attributable to:** | | | |
| - Members of the parent entity | | (4,170,626) | (5,348,717) |
| - Non-controlling interest | | (1,844,504) | - |
| | | (6,015,130) | (5,348,717) |
| **Total Comprehensive Income attributable to:** | | | |
| - Members of the parent entity | | (4,170,626) | (5,348,717) |
| - Non-controlling interest | | (1,844,504) | - |
| | | 6,015,130 | 5,348,717 |
| | | | |
| **Earnings Per Share** | | | |
| Basic loss per share (cents per share) | 7 | (1.84) | (2.82) |
| Diluted loss per share (cents per share) | 7 | (1.84) | (2.82) |
| 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 2011

| | Note | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and cash equivalents | 8 | 7,976,925 | 3,017,339 |
| Inventories | 9 | 395,710 | 165,338 |
| Other current assets | 10 | 258,051 | 252,545 |
| TOTAL CURRENT ASSETS | | 8,630,686 | 3,435,222 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 11 | 2,919,328 | 4,619,853 |
| Intangible assets | 12 | 8,695,000 | 8,695,000 |
| TOTAL NON-CURRENT ASSETS | | 11,614,328 | 13,314,853 |
| TOTAL ASSETS | | 20,245,014 | 16,750,075 |
| **Current Liabilities** | | | |
| Trade and other payables | 14 | 864,973 | 298,675 |
| Short-term provisions | 16 | 102,466 | 120,840 |
| Short-term borrowings | 15 | 2,342,054 | 528,000 |
| TOTAL CURRENT LIABILITIES | | 3,309,493 | 947,515 |
| **Non Current Liabilities** | | | |
| Long-term provisions | 16 | 141,139 | 141,139 |
| Long-term borrowings | 15 | 182,781 | 572,000 |
| TOTAL NON-CURRENT LIABILITIES | | 323,920 | 713,139 |
| TOTAL LIABILITIES | | 3,633,413 | 1,660,654 |
| NET ASSETS | | 16,611,601 | 15,089,421 |
| **Equity** | | | |
| Issued capital | 18 | 36,022,046 | 31,132,547 |
| Reserves | 19 | 876,763 | 3,065,080 |
| Non-controlling interest | | 749,614 | - |
| Accumulated Losses | | (21,036,822) | (19,108,206) |
| TOTAL EQUITY | | 16,611,601 | 15,089,421 |

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

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

| | Issued Capital | Option Reserve | Non-Controlling Interest | Accumulated Losses | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Consolidated Entity** | | | | | |
| **Balance at 30 June 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) |
| | - | - | - | (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) |
| Share 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 |
| | | | | | |
| **Balance at 1 July 2010** | 31,132,547 | 3,065,080 | - | (19,108,206) | 15,089,421 |
| Total comprehensive income for the period | - | - | (1,844,504) | (4,170,626) | (6,015,130) |
| | - | - | (1,844,504) | (4,170,626) | (6,015,130) |
| **Transactions with owners in their capacity as owners** | | | | | |
| Shares issued during the year | 5,250,207 | - | 2,594,118 | - | 7,844,325 |
| Transaction costs | (360,708) | - | - | - | (360,708) |
| Share options issued | - | 53,693 | - | - | 53,693 |
| Transfer of retained earnings | - | (2,242,010) | - | 2,242,010 | - |
| Dividends paid or provided for | - | - | - | - | - |
| **Balance at 30 June 2011** | 36,022,046 | 876,763 | 749,614 | (21,036,822) | 16,611,601 |

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

# STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

| | Note | Consolidated Entity 2011 $ | Consolidated Entity 2010 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Receipts from grants | | 1,858,525 | 1,617,624 |
| Interest received | | 226,576 | 104,583 |
| Payments to suppliers and employees | | (5,576,459) | (4,839,067) |
| **Net cash used in operating activities** | 22 | **(3,491,358)** | **(3,116,860)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | (457,508) | (1,149,071) |
| **Net cash used in investing activities** | | **(457,508)** | **(1,149,071)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of shares | | 5,250,207 | 4,247,357 |
| Share issue transaction costs | | (360,709) | (239,005) |
| Proceeds from borrowings | | 416,345 | 1,100,000 |
| Repayment of borrowings | | (597,391) | - |
| Loan Received from SPTS | | 1,605,882 | - |
| Proceeds from issue of shares from non-controlling interest in subsidiary | | 2,594,118 | - |
| **Net cash provided by financing activities** | | **8,908,452** | **5,108,352** |
| Net increase in cash held | | 4,959,586 | 842,421 |
| Cash at beginning of financial year | | 3,017,339 | 2,174,918 |
| **Cash at end of financial year** | 8 | **7,976,925** | **3,017,339** |

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**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, Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

**Nature of Operations**

BluGlass Limited and subsidiaries’ (the Group) principal activity is the research and development of Group III nitrides for the development of new processes and equipment for the manufacture of LEDs and solar cells.

The Group has research facilities based at Silverwater in Australia and via joint venture arrangements has access to research facilities in Wales UK. The group is working on achieving its technology milestones to be able to manufacture semiconductor material using its patented low temperature Remote Plasma Chemical Vapour Deposition (RPCVD) technology. RPCVD technology potentially offers numerous advantages over the standard Metal Organic Chemical Vapour (MOCVD) Technology. The Group revenue comes principally from Federal Government Grants.

**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.

Non-controlling interests, presented as part of equity, represents the portion of a subsidiary’s profit or loss and net assets that is not held by the Group. The Group attributes total comprehensive income or loss of subsidiaries and the non-controlling interests bond on their respective ownership interests.

(b) **Income Tax**

The income tax expense (revenue) for the year comprises current income tax expense (revenue) and deferred tax expense (revenue).

Current income tax expense charged to the profit and loss is the tax payable on taxable income calculated using

**NOTE 1:STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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.

(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.

**NOTE 1:STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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.

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

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(g) **Impairment of assets**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of comprehensive income.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(h) **Intangibles**

**Patents and trademarks**

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks and intellectual property have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life ranging from 5 to 10 years.

**Research and development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**Intellectual property**

Intellectual property (IP) which represents in process research is recognised at cost of acquisition. IP has a finite life once the asset is ready for use. Once the asset is ready for use the asset will be carried at cost less any accumulated amortisation and any impairment losses.

(i) **Foreign Currency Transactions and Balances**

**Functional and presentation currency**

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent and controlled entity's functional and presentation currency.

**Transaction and balances**

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

(j) **Employee Benefits**

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

**Equity-settled compensation**

The Group operates an equity-settled share-based payment employee share and option scheme. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using the Cox-Ross-Rubenstein Binomial pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(k) **Provisions**

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(m) **Revenue and Other Income**

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument.

All revenue is stated net of the amount of goods and services tax (GST).

(n) **Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) **Government Grants**

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(p) **Borrowing Costs**

Borrowing costs are expensed in the period in which they are incurred and reported in finance costs.

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

(q) **Comparative Figures**

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

(r) **Critical accounting estimates and judgments**

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

*Key estimates — Impairment*

The group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. See Note 12 Intangible assets for further disclosure of impairment.

*Key estimates — Share options*

The company issued options under the BluGlass Limited prospectus and the employee incentive option scheme. The options granted in the year were valued using the 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.

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

The Group has adopted the following revisions and amendments to AASB's issued by the Australian Accounting Standards Board and IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the annual period beginning 1 July 2010.

- Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project- AASB 2009-5
- Improvements to IFRSs- AASB 2010-03

Significant effects on current, prior or future periods arising from the first-time application of these new requirements in respect of presentation, recognition and measurement are described in notes below. An overview of standards, amendments and interpretations to IFRSs and AASBs issued but not yet effective is given in note 1(s).

*Adoption of improvements to IFRSs 2009 – AASB 2009-5*

The Improvements to IFRSs 2009 (issued as AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project) made several minor amendments to IFRSs. The only amendment relevant to the Group relates to AASB 117 Leases. The amendment requires that leases of land are classified as finance or operating by applying the general principles of AASB 117. Prior to this amendment, AASB 117 generally required a lease of land to be classified as an operating lease. The Group has reassessed the classification of the land elements of its unexpired leases at 1 July 2010 on the basis of information existing at the inception of those leases and has determined that none of its leases require reclassification.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

## NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

*Adoption of Improvements to IFRSs 2010 - AASB 2010-3*

The IASB has issued Improvements to IFRS 2010 (2010 Improvements) which was issued in Australia as AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvement Project. Most of these amendments become effective in annual periods beginning on or after 1 July 2010 or 1 January 2011. The 2010 Improvements amend certain provisions of AASB 3, clarify presentation of the reconciliation of each of the components of other comprehensive income and clarify certain disclosure requirements for financial instruments. The 2010 Improvements did not have a material impact on the Group's financial statements.

***Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted early by the Group***

At the date of authorisation of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by the Group.

Management anticipates that all of the relevant pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncement.

Information on new standards, amendments and interpretations that are expected to be relevant to the Group's financial statements is provided below.

Certain other new standards and interpretations have been issued but are not expected to have a material impact on the Group's financial statements.

*IFRS 9 / AASB 9 Financial Instruments (effective from 1 January 2013)*

The IASB aims to replace IAS 39 (AASB 139) Financial Instruments: Recognition and Measurement in its entirety. The replacement standard (AASB 9) is being issued in phases. To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning 1 January 2013. Further chapters dealing with impairment methodology and hedge accounting are still being developed.

Management have yet to assess the impact that this amendment is likely to have on the financial statements of the Group. However, they do not expect to implement the amendments until all chapters of AASB 9 have been published and they can comprehensively assess the impact of all changes.

(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 sufficient cash resources are available to meet the company's net commitments over the next twelve months.

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

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 2: Revenue and Other Income**

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Revenue | | |
| — interest received from other persons | 226,576 | 104,583 |
| Total Revenue | 226,576 | 104,583 |
| Other Income | | |
| — grant revenue | 1,858,525 | 1,617,024 |
| — sundry income | - | 600 |
| Total other income | 1,858,525 | 1,617,624 |

**Note 3: Loss for the year**

| | Consolidated Entity | |
|---|---|---|
| **Expenses:** | **2011** | **2010** |
| | **$** | **$** |
| Rental Expense on operating leases | | |
| — Minimum lease payments | 206,781 | 206,781 |

**Note 4: Income Tax Expense**

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| (a) The components of tax expense comprise: | | |
| — Current tax | - | - |
| — Deferred tax | - | - |
| | - | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 4: Income Tax Expense (Cont).**

| | Consolidated Entity | |
|---|---|---|
| | **2011** **$** | **2010** **$** |
| (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% (2010: 30%) | | |
| — consolidated entity | (1,804,539) | (1,604,615) |
| Add: | | |
| Tax effect of: | | |
| — IPO related costs(deductible over 5 years) | 92,709 | 92,709 |
| — share options expensed during year | 16,108 | 128,912 |
| — other non-allowable items | 40,850 | 74,812 |
| | 149,667 | 296,433 |
| Add: | | |
| Income tax benefit not bought to account | (1,654,872) | (1,308,182) |
| Income tax benefit attributable to the entity | - | - |
| Accumulated tax losses not brought to account | 6,354,664 | 4,699,792 |

**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 2011.

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

| | **2011** **$** | **2010** **$** |
|---|---|---|
| Short term employee benefits | 923,379 | 806,919 |
| Post-employment benefits | 83,602 | 97,499 |
| Other long-term benefits | - | - |
| Termination benefits | - | - |
| Share-based payments | 92,790 | 156,600 |
| | 1,099,771 | 1,061,018 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

Option Holdings

| 30 June 2011 | 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* | - | 600,000 | - | - | 600,000 | - | - | - |
| *Gregory Cornelsen* | - | 300,000 | - | - | 300,000 | - | - | - |
| *Chandra Kantamneni* | - | 300,000 | - | - | 300,000 | - | - | - |
| *Alan Li* | - | 300,000 | - | - | 300,000 | - | - | - |
| *William Johnson* | - | 300,000 | - | - | 300,000 | - | - | - |
| *Giles Bourne* | 4,295,274 | - | - | (3,085,000) | 1,210,274 | - | 310,274 | - |
| *Stuart Uhlhorn* | 500,000 | - | - | - | 500,000 | - | - | - |
| *Ian Mann* | 500,000 | - | - | - | 500,000 | - | - | - |
| | 5,295,274 | 1,800,000 | - | (3,085,000) | 4,010,274 | - | 310,274 | - |

| 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* | - | - | - | - | - | - | - | - |
| | - | - | - | - | - | - | - | - |
| *Giles Bourne* | 3,445,274 | 900,000 | - | (50,000) | 4,295,274 | 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 | - | (50,000) | 7,343,219 | 452,740 | 1,040,480 | - |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

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

| 30 June 2011 | 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* | 294,11 | - | | 106,000 | 400,118 |
| *Gregory Cornelsen* | 877,941 | - | - | | 877,941 |
| *Chandra Kantamneni* | 117,647 | - | - | | 117,647 |
| *Alan Li* | - | - | - | | - |
| *William Johnson* | - | - | - | | - |
| *Giles Bourne* | 150,397 | | | 93,333 | 243,730 |
| | 1,440,103 | | | 199,333 | 1,639,436 |

| 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 |

(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 24: Related Party Transactions

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### Note 6: Auditors' Remuneration

| | Consolidated Entity | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| Remuneration of the auditor for: | | |
| — auditing or reviewing the financial report | 31,200 | 37,500 |
| — taxation services | 9,600 | 6,480 |
| — Other audit services | 9,000 | 6,750 |
| | 49,800 | 50,730 |

### Note 7: Loss per Share

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2011<br>$ | 2010<br>$ |
| (a) | Loss attributable to members of the parent entity | (4,170,626) | (5,348,717) |
| (b) | Basic and diluted loss per share (cents per share) | (1.84) | (2.82) |
| | | No. | No. |
| (c) | Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS. | 226,334,220 | 189,602,420 |
| (d) | Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS. | 226,334,220 | 189,602,420 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 7: Loss per Share (cont.)**

| | | Consolidated Entity | |
|---|---|---|---|
| | | **2011** | **2010** |
| | | **$** | **$** |
| (e) | Weighted average number of potential ordinary shares not included in diluted EPS as anti-dilutive. | 12,853,686 | 7,711,469 |

**Note 8: Cash and Cash Equivalents**

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| Cash at bank and in hand | 1,684,476 | 2,956,665 |
| Short-term bank deposits | 6,291,291 | 59,050 |
| Petty cash | 1,158 | 1,624 |
| | 7,976,925 | 3,017,339 |

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 | 7,976,925 | 3,017,339 |
| | 7,976,925 | 3,017,339 |

**Note 9: Inventories**

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| CURRENT | | |
| Raw Materials and Stores (at cost) | 395,710 | 165,338 |
| | 395,710 | 165,338 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### Note 10: Other Current Assets

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| CURRENT | | |
| Prepayments | 166,074 | 232,230 |
| Security deposit | 15,016 | 10,916 |
| Other receivables | 76,961 | 9,399 |
| | 258,051 | 252,545 |

All amounts are short-term. The net carrying value of other receivables is considered a reasonable approximation of fair value. No impairment of receivables is deemed to exist. There were no bad debts during the year.

### Note 11: Plant and Equipment

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| PLANT AND EQUIPMENT | | |
| Plant and equipment: | | |
| At cost | 4,994,839 | 4,772,196 |
| Accumulated depreciation | (3,061,995) | (2,191,676) |
| Total plant and equipment: | 1,932,844 | 2,580,520 |
| Leased plant and equipment | | |
| At cost | 1,000,000 | 1,000,000 |
| Accumulated depreciation | (480,120) | - |
| Total leased plant and equipment | 519,880 | 1,000,000 |
| Leasehold improvements | | |
| At cost | 2,857,361 | 2,762,392 |
| Accumulated depreciation | (2,585,788) | (1,837,196) |
| Total leasehold improvements | 271,573 | 925,196 |
| Furniture and fittings | | |
| At cost | 115,959 | 114,438 |
| Accumulated depreciation | (44,895) | (33,445) |
| Total furniture and fittings | 71,064 | 80,993 |
| Computer equipment | | |
| At cost | 243,153 | 104,778 |
| Accumulated depreciation | (119,186) | (71,634) |
| Total computer equipment | 123,967 | 33,144 |
| Total property, plant and equipment | 2,919,328 | 4,619,853 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 11: Plant & Equipment (cont.)**

(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 2010 | 1,000,000 | 2,580,520 | 925,196 | 80,993 | 33,144 | 4,619,853 |
| Additions | | 222,643 | 94,969 | 1,521 | 138,375 | 457,508 |
| Disposals | - | | - | - | - | - |
| Depreciation expense | (480,120) | (870,319) | (748,592) | (11,450) | (47,552) | (2,158,033) |
| Balance at 30 June 2011 | 519,880 | 1,932,844 | 271,573 | 71,064 | 123,967 | 2,919,328 |

**Note 12: Intangible Assets**

| | Parent Entity | |
|---|---|---|
| | 2011<br>$ | 2010<br>$ |
| 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 17% (2010:15% to 18%). Other general market considerations have been considered including the market capitalisation of BluGlass. The IP was assessed to have a value of $10.0 million but the directors have resolved not to reverse any of the prior year’s impairment.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 13: Controlled Entities**

(a) **Controlled Entities Consolidated**

| | Country of Incorporation | Percentage Owned (%)* 2011 | 2010 |
|---|---|---|---|
| Parent Entity: | | | |
| BluGlass Limited | Australia | - | - |
| Subsidiaries of BluGlass Limited: | | | |
| Gallium Enterprises Pty Ltd | Australia | 100 | 100 |
| Blusolar Pty Ltd | Australia | 100 | 100 |
| BluGlass Deposition Technologies Pty Ltd | Australia | 100 | 100 |
| BluGlass Research Pty Ltd | Australia | 100 | 100 |
| EpiBlu Technologies Pty Ltd | Australia | 51 | - |

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

On 30 August 2010, BluGlass Limited and SPP Process Technology Systems Ltd (SPTS) established a joint venture entity -EpiBlu Technologies Pty Ltd. BluGlass has 51% ownership interest and has the power to govern the financial and operating policies so as to obtain benefits from the entities activities. In accordance with the Groups principles of consolidation the financial statements incorporate the assets, liabilities and results of the joint venture entity and the non-controlling interest has been shown separately within the equity section of the consolidated statement of financial position and statement of comprehensive income.

Revenue of EpiBlu Technologies Pty Ltd included in the consolidated group since incorporation amounted to $10,252. The losses of EpiBlu Technologies in the consolidated loss of the group since incorporation date amounted to $3,769,299 before non-controlling interests.

**Note 14: Trade and Other Payables**

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| **CURRENT** | | |
| Trade payables | 208,140 | 67,154 |
| Sundry payables and accrued expenses | 656,833 | 231,521 |
| | 864,973 | 298,675 |

The carrying values of trade payables, sundry and accrued payables are considered to be reasonable approximation of fair value.

**Note 15: Borrowings**

| | Note | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|---|
| **CURRENT** | | | |
| Lease liability | 19(a) | 736,172 | 528,000 |
| Loan from SPTS Technologies | | 1,605,882 | - |
| Total current borrowing | | 2,342,054 | 528,000 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 15: Borrowings(cont.)**

| | | | |
|---|---|---|---|
| **NON-CURRENT** | | | |
| Lease liability | 19(a) | 182,781 | 572,000 |
| Total non-current borrowings | | 182,781 | 572,000 |
| Total borrowings | | 2,524,835 | 1,100,000 |

**Note 16: Provisions**

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| Current | 102,466 | 120,840 |
| Non-Current | 141,139 | 141,139 |
| | 243,605 | 261,979 |

| | Lease Make Good $ | Employee Benefits $ | Total $ |
|---|---|---|---|
| **Consolidated Group** | | | |
| Opening balance at 1 July 2010 | 141,139 | 120,840 | 261,979 |
| Additional provisions | - | - | - |
| Amounts used | - | - | - |
| Unused amounts reversed | - | (18,374) | (18,374) |
| Balance at 30 June 2011 | 141,139 | 102,466 | 243,605 |

**Note 17: Employee Benefits Expense**

| | Consolidated Entity 2011 $ | 2010 $ |
|---|---|---|
| Wages, Salaries | 2,142,546 | 1,828,165 |
| Share-based payments | 53,693 | 429,708 |
| Superannuation | 155,448 | 164,990 |
| | 2,351,687 | 2,422,863 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

### Note 18: Issued Capital

| | Consolidated Entity | |
|---|---|---|
| | 2011 $ | 2010 $ |
| 239,845,016 (2010: 192,115,857) fully paid ordinary shares | 36,022,046 | 31,132,547 |
| | 36,022,046 | 31,132,547 |

The company has authorised share capital amounting to 239,845,017 ordinary shares.

| (a) Ordinary Shares | No. | No. |
|---|---|---|
| At the beginning of reporting period | 192,115,857 | 167,131,413 |
| Shares issued during the year: | | |
| — 1 August 2009 | | 24,984,444 |
| — 3 September 2010 | 23,297,379 | |
| — 9 November 2011 | 24,431,780 | |
| At reporting date | 239,845,016 | 192,115,857 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) **Options**

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 23 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 19: Reserves

**Option Reserve**

The option reserve records items recognised as expenses on valuation of employee share options. During 2011 the company has elected to reclassify amounts representing expired options to accumulated losses.

**Note 20: Capital and Leasing Commitments**

| | Consolidated Entity | |
|---|---|---|
| | **2011** | **2010** |
| | **$** | **$** |
| **(a) Finance Lease Commitments** | | |
| Commonwealth Bank hire purchase lease for research and development equipment. | | |
| Payable- minimum lease payments | | |
| — not later than 12 months | 794,671 | 570,066 |
| — between 12 months and 5 years | 197,242 | 617,572 |
| Minimum lease payments | 991,913 | 1,187,638 |
| Less future finance charges | (72,960) | (87,638) |
| Present value of minimum lease payments | 918,953 | 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 | 177,781 | 171,769 |
| — Between 12 months and 5 years | 103,706 | 271,967 |
| — greater than 5 years | - | - |
| | 281,487 | 443,736 |

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.

**(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 21: 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:

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 21(a): Operating Segments (cont.)**

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the product or service;
- the distribution method; and
- any external regulatory requirements

Applying the above criteria, the Group only has one operating division being the research and manufacture of Gallium Nitride (GaN).

The Group operates in one geographical area being in Australia.

The Group did not undertake any new operations and it did not discontinue any of its existing operations during the year.

**Note 22: Cash Flow Information**

| | | Consolidated Entity | |
|---|---|---|---|
| | | 2011 $ | 2010 $ |
| (a) | **Reconciliation of Cash Flow from Operations with Loss after Income Tax** | | |
| | Loss after income tax | (6,015,130) | (5,348,717) |
| | Non-cash flows in loss | | |
| | Depreciation expense | 2,158,033 | 1,799,641 |
| | Share options expensed | 53,693 | 429,708 |
| | Other Non-cash items | | |
| | Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries | | |
| | (Increase)/decrease in trade and term receivables | (67,566) | (7,405) |
| | (Increase)/decrease in prepayments | 66,156 | (25,425) |
| | (Increase)/decrease in deposits | (4,100) | - |
| | (Increase)/decrease in inventory | (230,372) | (8,941) |
| | Increase/(decrease) in trade payables and accruals | 566,302 | 14,945 |
| | Increase/(decrease) in provisions | (18,374) | 29,334 |
| | Cash flow from operations | (3,491,358) | (3,116,860) |

**Note 22: Cash Flow Information (cont.)**

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

(i) Options granted

1,800,000 share options were granted to the directors under the BluGlass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.17 each. Also 4,408,151 options were forfeited or lapsed during the year. Expense for the year was $53,693.

(c) **Loan Facilities**

| | | |
|---|---|---|
| Hire purchase facility | 1,516,344 | 1,500,000 |
| Amount utilised | (1,516,344) | (1,100,000) |
| | - | 400,000 |

The hire purchase facility expires in February 2013. 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 23: Share-based Payments**

The following share-based payments existed at 30 June 2011:

In 2011 1,308,151 share options were forfeited following the resignation of employees

In 2011 3,100,000 share options lapsed following the expiry of the options.

On 2 November 2010, 1,800,000 share options each were granted to the directors 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 | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| | Number of Options | Weighted Average Exercise Price $ | Number of Options | Weighted Average Exercise Price $ |
| Outstanding at the beginning of the year | 12,247,122 | 0.31 | 6,802,122 | 0.43 |
| Granted | 1,800,000 | 0.17 | 5,620,000 | 0.17 |
| Forfeited | (1,308,151) | 0.13 | (25,000) | 0.39 |
| Exercised | - | - | - | - |
| Expired | (3,100,000) | 0.16 | (150,000) | 0.20 |
| Outstanding at year-end | 9,638,971 | 0.24 | 12,247,122 | 0.31 |
| Exercisable at year-end | 2,978,971 | 0.38 | 2,459,748 | 0.38 |

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 23: Share-based Payments (cont.)**

No employee options were exercised during the year ended 30 June 2011.

The options outstanding at 30 June 2011 had a weighted average share price of $0.24 and a weighted average remained contractual life of 2.7 years. (Option prices were $0.31 in respect of options outstanding at 30 June 2010).

The weighted average fair value of the options granted during the year was $0.052.

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 | $0.16 |
| Expected share price volatility | 70% |
| Risk free interest rate | 5.25% |

Volatility for BluGlass share price movement was based on similar comparable entities.

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

Included under employee benefits and expense in the income statement relating to share-based payment is $53,693 (2010: $429,708) and relates, in full, to equity-settled share-based payment transactions.

**Note 24: Related Party Transactions**

| | Consolidated Entity | |
|---|---|---|
| | 2011 $ | 2010 $ |
| 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 25: Financial Risk Management**

The Group's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable, loans to a subsidiary and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

| | Note | Consolidated Entity | |
|---|---|---|---|
| | | 2011 | 2010 |
| **Financial Assets** | | | |
| Cash and cash equivalents | 8 | 7,976,925 | 3,017,339 |
| | | 7,976,925 | 3,017,339 |

**Note 25: Financial Risk Management(cont.)**

| | | | |
|---|---|---|---|
| **Financial Liabilities** | | | |
| Trade and other payables | 14 | 864,973 | 298,675 |
| Borrowings | 15 | 2,524,835 | 1,100,000 |
| | | 3,389,808 | 1,398,675 |

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*

Liquidity risk is that the Group might be unable to meet its obligations. The Group manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities as well as forecast cash inflows and outflows due in day-to-day business. The data used for analysing these cash flows is consistent with that used in the contractual maturity analysis below. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 180-day and a 360-day lookout period are identified monthly.

The Group's objective is to maintain cash to meet its liquidity requirements. This objective was met for the reporting periods.

The Group considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Group's existing cash resources and trade receivables significantly exceed the current cash outflow requirements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 25: Financial Risk Management(cont.)**

As at 30 June 2011 the Groups non-derivative financial liabilities have contractual maturities(including interest payments where applicable) as summarised below:

| | Current | | Non-Current | |
|---|---|---|---|---|
| **30 June 2011** | **Within 6 months** | **6 to 12 months** | **1 to 5 years** | **Later than 5 years** |
| | **$** | **$** | **$** | **$** |
| Finance Lease Obligation | 368,086 | 368,086 | 182,781 | - |
| Trade and other payables | 864,973 | - | - | - |
| Loan from SPTS | 1,605,882 | - | - | - |
| Total | 2,838,941 | 368,086 | 182,781 | - |

(d) Market Risk

(i) *Foreign Exchange Risk*

The group does not have any material foreign exchange risk exposure to any single asset or liability or group of assets or liabilities under financial instruments entered into by the consolidated entity.

(ii) *Interest Rate Risk*

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets is as follows:

| | Weighted Average Effective Interest Rate | | Floating Interest Rate | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| | **%** | **%** | **$** | **$** |
| **Consolidated Entity** | | | | |
| **Financial Assets:** | | | | |
| Cash | 1,685,634 | 2.27 | 60,674 | 2.27 |
| Investments in term deposits and bank bills | 6,291,291 | 4.40 | 2,956,665 | 4.40 |
| **Total Financial Assets** | 7,976,925 | | 3,017,339 | |

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

(iii) *Financial instrument composition and maturity analysis*

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

(iv) *Net Fair Values*

All financial assets and liabilities at 30 June 2011 have maturities of less than 45 days and carrying value represents net fair value.

(v) *Sensitivity analysis*

The consolidated and parent entity do not have projected exposure to foreign currency risk or price risk and no material projected exposure to interest rate risk.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2011

**Note 26: Contingent Liabilities**

Contingent liabilities include:

— The lease for 74 Asquith Street is supported by a CBA bank guarantee for $118,129. Collateral for the bank guarantee is a set-off against cash invested with the CBA for $118,129. The CBA also holds a Guarantee against the company credit cards of $50,000.

**Note 27: Events after Balance Sheet Date**

In early August 2011 the board authorised patent applications to be lodged in 6 countries.

**Note 28: BluGlass Ltd Parent Company Information**

| | 2011 | 2010 |
|---|---|---|
| | $ | $ |
| Parent entity | | |
| Assets | | |
| Current assets | 5,246,614 | 3,476,579 |
| Non-current assets | 14,351,519 | 13,448,623 |
| Total assets | 19,598,133 | 16,925,202 |
| Liabilities | | |
| Current liabilities | 1,324,546 | 953,217 |
| Non-current liabilities | 323,920 | 713,139 |
| Total liabilities | 1,648,466 | 1,666,356 |
| Net Assets | 17,949,667 | 15,258,846 |
| Equity | | |
| Issued capital | 36,022,046 | 31,132,547 |
| Accumulated Losses | (18,949,142) | (18,938,781) |
| Reserves | | |
| Share option reserve | 876,763 | 3,065,080 |
| Total Equity | 17,949,667 | 15,258,846 |
| Financial performance | | |
| Loss for the year | (2,252,371) | (5,349,230) |
| Other comprehensive income | - | - |
| Total comprehensive income | (2,252,371) | (5,349,230) |

**Note 29: 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