BLUGLASS LIMITED and CONTROLLED ENTITIES

ABN 20 116 825 793

FINANCIAL STATEMENTS FOR THE YEAR ENDING 30 JUNE 2018

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DIRECTORS' REPORT

Your directors present their report on BluGlass Limited and its controlled entities ("the Group") for the financial year ended 30 June 2018.

DIRECTORS

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

Mr Gregory Cornelsen (retired 1 March 2018)
Mr Chandra Kantamneni (retired 24 May 2018)
Dr William Johnson
Mr Vivek Rao
Mr Giles Bourne
Mr James Walker (appointed 25 July 2017)
Mr Stephe Wilks (appointed 24 May 2018)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was to further the research and development of Group III nitrides for the development of new processes and equipment to manufacture high efficiency devices such as LEDs and solar cells. The Group is working on achieving its technology milestones using its patented low temperature Remote Plasma Chemical Vapour Deposition (RPCVD) technology to manufacture semiconductor materials. RPCVD has many potential advantages over the current industry technologies.

There were no significant changes in the nature of the Group's principal activities during the financial year.

REVIEW OF OPERATIONS

During the 2018 Financial Year BluGlass continued to develop the technology and opportunities for its proprietary Remote Plasma Chemical Vapour Deposition (RPCVD) technology, delivering a number of key achievements that furthered the capability of the technology and the supporting intellectual property portfolio of RPCVD. Some highlights include the Company publishing its best material performance data to date, filing new patent applications and advancing its strategic projects with our US and European based partners, as well as selecting additional strategic collaboration partners.

These achievements provide a robust foundation for the company as we work to deliver successful commercial outcomes in our industry evaluations and collaborations.

Strengthening our global expertise

Increasing project demands and an expanding global marketing and commercialisation focus meant that during the year strengthening our leadership and expanding our team become a priority for the Company. BluGlass is built on a highly talented and expert team of professional directors, specialist scientists and engineers, and commercial staff; and augmented by world leading industry consultants - all committed to bringing to market the Company's breakthrough technology.

To this end, BluGlass undertook a Board restructure with the departure of long-standing Non-Executive Directors, Greg Corneleson and Chandra Kantamneni. Both Greg and Chandra retired after 12 years of significant contribution, both on the Board and a number of sub-committees during their tenure. Greg and Chandra each played an instrumental role in the steering and development of the Company since its listing in 2006.

To meet the growing international commercialisation focus, BluGlass appointed two technology commercialisation specialists; with James Walker and Stephe Wilks joining the BluGlass Board as Non-Executive Directors. Both James and Stephe bring strong track records in successfully delivering new technologies into emerging and international markets.

To further our global presence and develop additional strategic opportunities BluGlass appointed Brad Siskavich as the Global Vice President of Business Development. Brad is leading the expansion of the BluGlass service business, EpiBlu. Brad brings more than 20 years' experience in developing, marketing and commercialising new technologies in start-up and high-growth environments in the compound semiconductor, photovoltaic (solar), laser, photonics and opto-electronics industries.

BluGlass has also appointed Dr. Mike Krames as an Advisor to the Company to provide expert guidance on the market and technology development and commercialisation plans of RPCVD. Mike is a recognised world authority on LEDs and their applications for lighting and displays. He was previously Executive Vice President at Philips Lumileds, and subsequently, Chief Technology Officer at Soraa, Inc., an LED company founded by Nobel Prize winner Shuji Nakamura

Both Brad and Mike are based in the US.

We also grew our Silverwater technology team with the addition of an experienced process engineer to assist in the operation of the BuGlass deposition systems.

Facility Upgrade

BluGlass currently has only two RPCVD platforms available to dedicate to our strategic developments and growing project pipeline, limiting our capacity to make hardware and process refinements. There was an urgent need to expand our development capacity and significantly upgrade our facility to install additional RPCVD deposition equipment.

In June this year, BluGlass undertook a significant capital raise to facilitate this upgrade. The Company raised $9.2 million from institutional, professional and sophisticated investors at AUD$0.37 per share in an Institutional Placement and raised a further $2M at the same price in a Share Purchase Plan (SPP) to existing investors.

Funds raised from the Institutional Placement and SPP are being used to:

- acquire additional MOCVD equipment to build and demonstrate applications by retrofitting with RPCVD on commercial platforms:
- undertake a major facilities upgrade to expand current infrastructure to house the new RPCVD equipment that will assist in the acceleration of RPCVD development; and
- to strengthen the Company's balance sheet to exploit market opportunities and help fund the planned increase in activity.

Technology Update

Technical excellence is at the heart of what we do. The majority of the RPCVD development is concentrated on carefully selected strategic collaborations and partnerships, and as such we are bound by confidentiality agreements with respect to those specific developments of the RPCVD technology.

2017 GREEN LED DATA

MOCVD EL DATA	20 mA	50 mA	100 mA
Light Output (mW)	1.3	3.3	6.2
V_f (V)	3.1	3.7	4.6
Peak Wavelength (nm)	514	511	508
FWHM (nm)	28	31	33

RPCVD EL DATA	20 mA	50 mA	100 mA
Light Output (mW)	1.9	4.5	8.1
V_f (V)	3.0	3.6	4.5
Peak Wavelength (nm)	515	512	510
FWHM (nm)	30	30	33
% Performance improvement of RPCVD compared to MOCVD [Light Output / (i x Vf)]	+47%	+39%	+35%

** Both RPCVD and MOCVD data obtained from p-GaN overgrown on the same partial LEDs grown by MOCVD up to and including the Electron Blocking Layer (EBL). All measurements taken at wafer level using indium dot contacts.These wafers were not processed.

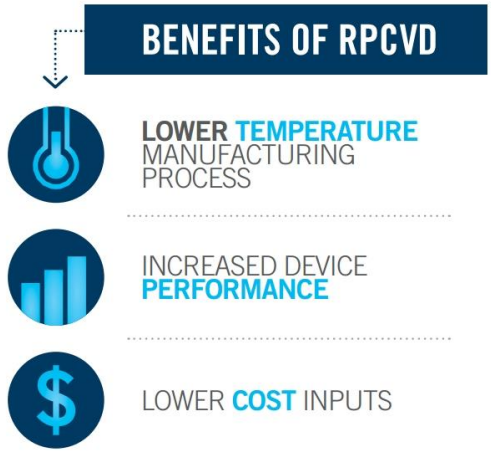
Despite this, during the year BluGlass published its best RPCVD performance data to date, presenting the new technical data at the invite-only Workshop for Ultra-Precision Processing for Wide Band-Gap Semiconductors (WUPP) in the USA. BluGlass was invited to present at the 5th International WUPP workshop, which gathers a focused group of leading research insititutions and companies in the nitrides community to discuss various topics ranging from LEDs, Laser Diodes and power electronics. In the data BluGlass presented greater than 30% performance improvement in RPCVD p-GaN based green LEDs compared to BluGlass' MOCVD green LEDs measured at the wafer level. Further work is ongoing to demonstrate RPCVD p-GaN on fully processed devices.

This performance improvement was largely enabled by another key acheivement during the year where BluGlass successfully delivered a major hardware upgrade to improve the uniformity and demonstrate the scalability of the RPCVD technology with the successful installation and commissioning of the upgraded BLG-300, the larger of the two RPCVD platforms. The new design was based on the earlier upgraded BLG-180, and developed to demonstrate a scalable modular design which, as successful will form the basis of further scalability demonstrations.

The new BLG-300 quickly set a new benchmark for RPCVD, achieving a significant milestone for the Company, and demonstrating good thickness and improved performance uniformity over 2, 4 and 6-inch wafers suitable for BluGlass' commercial demonstrations across the various existing collaborative projects.

BluGlass' Chief Technology and Operations Officer, Dr. Ian Mann has been invited to present at SPIE Photonics WEST in the US in February 2019. Photonics West is the world's largest photonics technology event attracting more than 23,000 visitors annually.

Benefits of RPCVD



Competitiveness in the HB-LED industry is largely driven by efficiency (light output) and manufacturing costs. Efficiency improvements can also lower cost.

An industry benchmark states that each 1% improvement in LED efficiency can translate to a 3-5% reduction in chip costs. This means higher LED efficiency results in smaller chip sizes, leading to more chips per wafer and lower chip manufacturing costs.

BluGlass' unique low-temperature RPCVD technology has inherent advantages that may increase LED performance and help reduce epi-wafer manufacturing costs, and this is what we are working to demonstrate with a number of our collaboration partners.

Building our strategic partnerships

BluGlass' future success is underpinned by our ability to commercialise the RPCVD technology solution to a highly engaged customer base in a broad range of applications. By working closely with our future customers on the development of RPCVD in a collaborative effort helps ensure that the RPCVD technology will deliver real solutions that meet the demands and needs of our partners and the industries that we serve.

BluGlass has several important Strategic Partnerships in place and during the year also broadened our strategic horizons, announcing two additional partnerships. An update on key partnerships is provided below.

Lumileds – High Brightness LED collaboration

The most immediate market opportunity for BluGlass remains in high-brightness LED applications. Our continuing partnership with Lumileds, a global leader in automotive LED lighting products, remains one of our top priorities. In March 2018, BluGlass agreed with Lumileds to extend the Phase II collaboration. The extension was specifically designed to accelerate the development including shortening turnaround times of experimental iterations.

BluGlass and Lumileds are collaborating to develop a novel application of high-brightness LEDs. The Phase:II collaboration is focused on the integration of BluGlass' RPCVD technology into certain LED applications.

The expedited development schedule has already led to significantly greater effort by both parties. BluGlass is pleased with the continued progress towards the Phase II Milestones.

IQE - cREO for range of electronic applications collaboration

Another key strategic partner for BluGlass is global foundry manufacturer of advanced semiconductor wafer products, IQE. BluGlass and IQE are collaborating to develop specific enabling technology for high quality nitride films deposited by low temperature RPCVD on both silicon wafers and on specially engineered substrates: cREO™ on silicon. This would have commercial application in a wide range of electronic devices.

IQE remains an important collaboration partner for BluGlass.

Griffith University and IMCRC – power electronics collaboration

During the year BluGlass also entered into a unique partnership with Griffith University and the Innovative Manufacturing Cooperative Research Centre (IMCRC) to develop next-generation GaN transistors, called High Performance Normally OFF GaN High Electron Mobility Transistors or normally OFF (HEMT)s.

This two-year, $600,000 co-funded research project combines two Australian enabling technologies - BluGlass' RPCVD technology and Griffith University's Atomically Smooth SiC on large Si (SiC on Si) wafers.

Normally OFF GaN transistors are another significant market opportunity where RPCVD has a demonstrated performance potential over traditional MOCVD devices. This application also draws on the significant pre-established p-GaN development work that BluGlass conducted for its proof of concept milestone in LEDs and is a natural extension of this work.

BluGlass wanted to work with a partner to develop full devices for product demonstration, over epi-wafer demonstrations, as a more attractive commercial proposition for the transistor market.

Griffith University's extensive expertise in this area and the commercial backing of the IMCRC make this an ideal partnership to demonstrate the power electronics of the future.

Growing our service business

In November 2017 BluGlass launched our custom epitaxial brand, EpiBlu. The service business continues to provide a growing source of revenue for BluGlass, as well as a pipeline of future collaborators and customers.

Not only is this service arm a revenue generating opportunity for BluGlass, providing additional commercialisation opportunities, but it is also a valuable part of our broader RPCVD commercialisation strategy.

EpiBlu is able to introduce our customers, at the cutting edge of the opto-electronics industry, to the unique benefits of the RPCVD technology into a broad range of applications through its fee-for-service prototyping and custom epitaxial offerings.

The microLED opportunity

BluGlass currently provides development services to multiple microLED companies that are interested in a combination of MOCVD and RPCVD capabilities to develop and prototype their innovative devices.

These customers are each developing unique microLED technology and are looking to exploit the potential benefits of RPCVD. The primary interest is for high performance green LEDs.

BluGlass is very interested in the microLED market segment, which builds on our established LED know-how. Additionally the inherent advantages of RPCVD lends itself even further to the requirements of micro-displays. Low temperature RPCVD could be key to unlocking high performance of longer-wavelength LEDs (green and red LEDs) and be part of an enabling technology solution.

The rapidly growing microLED industry is anticipated to grow from its present R&D base to be valued at US $19.9B by 2025.

In March this year, BluGlass announced that it had entered into a customer Collaboration Agreement with a well-funded microLED company to develop novel RGB microLED applications. The two companies are working together to demonstrate a unique red, green and blue (RGB) microLED display application.

The microLED market is an enormous opportunity for RPCVD within one of the fastest growing LED market segments, with applications in wearables (watches), mobile displays, next generation TV displays, virtual reality (VR) and augmented reality (AR).

Bard Siskavich leads the EpiBlu business development and we will continue to expand the business based on our growing reputation and continued positive results from existing customers.

BluGlass and EpiBlu have featured at a number of key industry events as speakers, exhibitors and sponsors over the year.

Intellectual Property Update:

To maximise our commercialisation potential, our Intellectual Property Portfolio is one of the most important aspects to BluGlass' asset base. As a result, BluGlass is significantly increasing its investment in its IP development and patent protection.

While we continue to work with our Australian Patent Attorneys and our external expert Patent Manager, BluGlass has also recently appointed an IP firm in the US to assist in the further strengthening of our portfolio.

BluGlass currently has 48 internationally granted patents in key semiconductor markets, with an additional 14 expected to grant on 29 August (with the Official Decision to Grant having now been received). This will bring our total granted portfolio to a total of 62 internationally granted patents from that date.

The Year Ahead:

As we head into the 2019 Financial Year, BluGlass' immediate focus is on completing the significant upgrade to our Silverwater facility, while minimising any disruption to our existing operations and collaboration projects.

The majority of the facility upgrade is separated from our existing laboratories and is expected to cause minimal impact on our operations. The plan will see us expand out new cleanrooms into the warehouse space of our facility. BluGlass looks forward to updating the market on the facility upgrade and the design, installation and commissioning of new large scale RPCVD chambers.

The upgrade is expected to take a number of months to complete, with the first of the new RPCVD chambers to come online in the second quarter of 2019.

BluGlass primary objective for the upcoming year is to deliver successful outcomes in one or more of our current industry partnerships. These discussions and collaborations are in different stages of development, but each one of them has significant market potential once realised.

Following the recent launch of our service brand, EpiBlu, the Company will also continue to grow this revenue generating business; while also working with potential future collaborators and customers of the RPCVD technology, in particular following the installation of our additonal capacity and next generation of RPCVD deposition systems.

The BluGlass Board and Management look forward to delivering on the strategic and commercial goals of the Company - for our shareholders and our breakthrough technology - in the year ahead.

FINANCIAL SUMMARY

The consolidated loss for the period increased 5% to $3,840,262 (2017: $3,660,557).

The net assets of the consolidated entity increased by $6,687,188 to $25,388,999 (2017: $18,701,811) due the capital raise completed during the period.

Revenue and other income has increased by $9,213 to $2,811,063. Material variations in revenue received are as follows:

- Revenue for the provision of foundry services to third parties of $713,826 (up 30%) was received for the year compared to $550,087 in the 2017 financial year.

- Revenue from the R&D tax rebate decreased by $176,899 (down 8%) to $1,940,096 compared to $2,116,995 received in the 2017 financial year.

Gross expenditure has increased by $188,918, up 3% to $6,651,325 due to the following factors:

- Salaries and wages deceased by $149,018 down 5% (2017: $3,145,137) due to the reduction in the amount of share based payments expensed during the year.
- Consumables Research and Development costs increased by $261,683 up 29% to $1,158,198 (2017:$896,515) during the year due to the increased use of the tools for research and development.
- Depreciation expense is reducing as our research equipment is progressively written off, $191,147 (2017: $474,747.

Net cash required for operations averaged $320,022 per month, (2017: $305,046). The increase is mainly due to the increase in R&D costs.

The Statement of Financial Position does not include a value for the increasing number of patent applications and patents granted during the period. Since listing on the ASX in 2006 all research and development costs are expensed as incurred, and not capitalised. Accounting standards require that the originally acquired Intangible Assets, being the Intellectual Property associated with Patents 1 & 2 acquired from Macquarie University in 2006, be tested annually to ensure no impairment to the carrying value has occurred. The current value of $8.695m has been reviewed by independent valuers and the directors have accepted their assessment that no impairment to the carrying value is warranted. This valuation is supported by the cornerstone nature of Patents 1 & 2 that were acquired from Macquarie University. Management's and the Board's view is that these patents are still fundamental enablers to the company's RPCVD technology. Refer to note 12 for further information.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

Other than the developments reported elsewhere in this report, there were no significant changes in the state of affairs during the year.

DIVIDENDS PAID OR RECOMMENDED

No dividends were declared in 2018 or 2017.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There were no reportable financial matters subsequent to the end of the Financial Year.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

BluGlass will position itself to take advantage of the growing LED, power electronics and solar markets in order to maximise shareholder return.

BluGlass will continue to validate the RPCVD technology as the company works towards its industry acceptance goals in order to commercialise the technology.

These developments, together with the current strategy of continuous improvement and innovation are expected to assist in the acheivement of the Group's long-term goals and development of its business opportunities.

ENVIRONMENTAL AND SAFETY ISSUES

The BluGlass RPCVD technology uses some materials classified under the Dangerous Goods Act. All materials and consumables are handled in compliance with relevant regulatory environmental, health and safety codes, as do all facility emissions.

The company has in place WHS procedures and a Safety Manager who reports weekly to the Managing Director on all safety and environmental related matters. BluGlass meets and exceeds all state and federal WHS statutory requirements.

There were no reportable incidents during the period. Reviews of site operations during the period has led to the implementation of new operational procedures. Bluglass has also recently adopted a cloud based WHS reporting and management system as part of its ongoing commitment to site safety.

INFORMATION ON DIRECTORS

DR. WILLIAM JOHNSON

Non Executive Chairman
BS-Phy, MS-EE, PhD

Former Directorships (last 3 years) President and CEO SPTS Pty Ltd

Special Responsibilities Remuneration and Nominations Committee member, Audit and Risk Committee member

Experience and Expertise

William Johnson ("Bill"), is a seasoned CEO with extensive business development/M&A, technological leadership, and successful hands-on leadership roles in operations ranging from high technology start-ups to Fortune 500 high technology companies. He is the former President and Chief Executive Officer of SPP Process Technology Systems (SPTS), a manufacturer of capital equipment for the semiconductor and related indu stries.

Bill has held technical, marketing, and executive management positions with Ford Motor Co. Scientific Research Laboratories (1973-1978), Perkin-Elmer Corp. (1978-1986), Ulvac Corp. (1987-1991), Varian Associates (1992-1994), Intevac Inc. (1994-1996), Oryx Instruments and Materials Corp. (1996-1999). From 2003-2006, he was founder and managing director of Crane Ridge Associates, a firm providing consulting and M&A guidance to select high tech clientele; his association with Sumitomo Precision Products began in 2007, and he was the architect for the formation of SPTS through the acquisition of assets of Aviza Technology. Since then Bill was instrumental in leading the all equity based management buy-out of SPTS in mid 2011 which saw Bridgepoint, a leading European Private Equity company become a major owner in the company, and again with the sale of SPTS to Orobtech Limited in 2014.

MR. GILES BOURNE

Managing Director and Chief Executive Officer
B.A. (Hons), MBA, FAICD

Special Responsibilities BluGlass Chief Executive Officer

Giles is a senior executive with over 20 years of international business development experience gained in the clean-tech, technology and manufacturing sectors. He is a specialist in developing offshore business opportunities, securing inward expansion investment, setting up domestic and international partnerships, JV's and licensing deals for Australian corporations.

Giles' focus at BluGlass is to provide leadership as well as developing sales and marketing structures to support the commercialisation of BluGlass' LED and solar technology.During his time at BluGlass, Giles has lead the team to secure a strategic partnership with global semiconductor equipment company SPTS Technologies, secured more than $25M in Government and Private Investment and supported the technology team to its proof of concept milestone

MR. VIVEK RAO

Non Executive Director *MS-EE, BSc-Elec*

Special Responsibilities: Audit and Risk Committee member and Remuneration and Nominations Committee member

Experience and Expertise:

Vivek Rao is the Executive Vice President & Chief Operations Officer of SPT Microtechnologies (a Division of SPP Technologies). Vivek is a seasoned semiconductor professional with more than 20 years in the semiconductor capital equipment industry in various managerial and technical leadership roles and brings to the BluGlass board a strong understanding of BluGlass' target markets and customers, he joins the board as a Non-Executive Director.

MR. JAMES WALKER

Non Executive Director *B Comm, FCA, GAICD*

Special Responsibilities: Remuneration and Nominations Committee member, Audit and Risk Committee member

Former Directorships in last 3 years Managing Director- DroneShield Limited
Finance Director-Seeing Machines Limited

Experience and Expertise:
James Walker is a seasoned executive, with a track record in successfully commercialising cutting-edge technology in emerging markets.

He has headed a number of Australian and international technology companies, including as Chief Executive Officer of DroneShield (ASX:DRO), Chief Financial Officer of Seeing Machines (AIM: SEE) and held leadership positions in a number of growth companies including Hotel Dynamics, Fluorotechnics and Optalert.

James is an entrepreneurial and passionate business executive who thrives on commercialising technology and building new global markets. He brings a wealth of experience to the BluGlass Board with over twenty years' executive and board experience, where he has built and scaled-up businesses across a wide range of global technology industries; from software, mining technology services, automotive, aviation, biotechnology, drone detection and security sectors.

MR. STEPHE WILKS

Non Executive Director *BSC, LLM*

Current Directorships Non Executive Director- Datadot Technologies

Former Directorships in last 3 years Non Executive Director- Dubber Holdings Limited
Non Executive Director- Service Stream Limited

Experience and Expertise:

Stephe Wilks is a professional company Director, with a long record leading successful global technology companies in high growth and disruptive industries. He has headed several Australian and international technology companies, including as Regional Director (Asia and Japan) Regulatory affairs for BT Asia Pacific, Managing Director of XYZed Pty Ltd (an Optus company) Chief Operating Officer of both Nextgen Networks and Personal Broadband Australia, and as Consulting Director of NM Rothschild and Sons.

Stephe is the Chair of Australia's largest private IT services company, Interactive. He also serves as non-executive director of Sirion Global (part of HellosWire IoT satellite group) and of DataDot Technology (ASX:DDT). His extensive finance, strategic management, M&A and public affairs add signifcant value to the Bluglass board.

MR. CHANDRA KANTAMNENI (Retired 24 May 2018)

Non Executive Director *MSc, MS, MBA*

Special Responsibilities Audit and Risk Committee member

Experience and Expertise
Chandra Kantamneni has more than 30 years experience in the global semiconductor industry. Formerly he was the Vice President of Worldwide Fab Operations of US-based Peregrine Semiconductor Corporation where he managed the world wide Foundry Operations for the Corporation. Prior to that he was the Vice-President and Managing Director of Peregrine Semiconductor, Australia.

Chandra has worked in senior management and engineering positions for some of the world's largest US-based semiconductor companies, including director of worldwide foundry operations and engineering manager for International Rectifier Corporation, director of engineering for GMT Microelectronics, and Manufacturing Manager of the Fairchild Research Centre of National Semiconductor Corporation.

MR. GREG CORNELSEN (Retired 1 March 2018) **Non Executive Director** *BEc*

Special Responsibilities: Remuneration and Nominations Committee Chairman, Audit and Risk Committee Chairman

Experience and Expertise

Greg Cornelsen is an economics and business development specialist and a successful businessman having held leadership positions in both large Australian based multinationals and start-up operations. A former international rugby union player, with 25 caps for the Australian Wallabies, he is a committee member of the Australian Barbarian Rugby Club and the Chairman of the Australian Schools Rugby Foundation. His rugby and business backgrounds have allowed him to develop an extensive network within the Australian business community.

Greg is a long-time passionate supporter of sustainable practises and clean technologies having grown up on a family station that employed revolutionary broad acre sustainable practises. Greg has always understood the importance of the BluGlass technology for both the LED and solar industries. He has been instrumental in steering the Board's sub committees.

COMPANY SECRETARY

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

Mr Emmanuel Correia

Emmanuel Correia is a Chartered Accountant and has extensive experience in the corporate finance and equity capital markets. Emmanuel has had over 20 years public accounting and corporate finance experience both in Australia, North America and the United Kingdom. He has held various senior positions with Big 4 accounting firms and boutique corporate finance houses.

Emmanuel provides corporate advice to a diverse client base both in Australia and in overseas markets. Emmanuel has previously held a number of public company directorships and his key areas of expertise include Initial Public Offerings and secondary capital raisings, corporate strategy and structuring merger and acquisitions. Emmanuel is currently a non executive director of Canyon Resources Limited.

REMUNERATION REPORT 2017- 2018 (AUDITED)

INTRODUCTION

The Directors of BluGlass Limited present the Remuneration Report for the Company and its controlled entities for the year ended 30 June 2018. This Remuneration Report forms part of the Directors Report and is subject to audit by the external auditor in accordance with the Corporations Act 2001.

The Report details the nature and amount of remuneration for the company's non-executive directors and the executive team who by definition are the company's **Key Management Personnel**. The Key Management Personnel are the key people accountable for directing the affairs of the company and its controlled entities.

The people who currently hold these Key Management Personnel positions are listed in the table below

NON-EXECUTIVE DIRECTORS		EXECUTIVES	
William Johnson	Chairman	Giles Bourne	Managing Director & CEO
Vivek Rao	Director	Ian Mann	Chief Technology Officer
James Walker (appointed 25 July 2017)	Director	Stuart Uhlhorn (retired 20 October 2017)	Chief Financial Officer
Stephe Wilks (appointed 24 May 2018)	Director		
Chandra Kantamneni (retired 24 May 2018)	Director		
Greg Cornelson (retired 1 March 2018)	Director		

During the period the Remuneration and Nominations Committee comprised 3 independent directors - Greg Cornelsen (committee chairman until 1 March 2018), William Johnson, Vivek Rao (committee chairman from 1 March 2018) and James Walker (from 1 March 2018) .The Committee met once during the year.

REMUNERATION STRATEGY

The remuneration policy of BluGlass Limited has been designed to align shareholder objectives with the strategic business objectives of BluGlass. This is achieved by providing;

1. a competitive market related fixed remuneration component,
2. a small component of short term incentives and
3. long-term incentives based on key performance areas affecting the consolidated entity's ability to commercialise its technology milestones when achieved.

The remuneration policy, setting the terms and conditions for the directors and executives was developed by the remuneration committee and approved by the Board after seeking professional advice from independent external consultants.

The Board of BluGlass Limited aims for the remuneration strategy to attract and retain the appropriate executives and directors to run and manage the consolidated entity.

The ability to attract the best staff is achieved via ensuring all staff as well as executives and directors have access to a meaningful and rewarding long term incentive scheme currently in the form of an employee option scheme in association with an employee share trust that creates goal congruence between directors, executives and shareholders.

The Directors are currently reviewing the employee option plan so that it continues to maintain the alignment between directors, executives and shareholders.

NON-EXECUTIVE DIRECTORS' REMUNERATION

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration and nominations committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. No such advice has been obtained during the year.

The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the consolidated entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company and are able to participate in the company's employee option scheme.

The current remuneration of non-executive directors is:

Position	Remuneration
	$
Chairman	90,000
Director	60,000
Committee Chairperson	5,000
Committee member	2,500

A non-executive director's remuneration thus comprises the base board fee, any applicable committee chairman fee and the 9.5% superannuation levy contribution. Individual board fees were increased on 1 June 2018.

		SHORT TERM	POST EMPLOYMENT	LONG TERM INCENTIVES	TOTAL REMUNERATION	
		Board and Committee fees	Superannuation	Share Based Payments	Total	% of remuneration that is non-cash
		$	$	$	$	
Directors						
William Johnson	**2018**	**75,000**	**-**	**-**	**75,000**	**-**
	2017	60,179	-	81,600	141,779	58
Greg Cornelsen (retired 1 March 2018)	**2018**	**31,784**	**3,020**	**-**	**34,804**	**-**
	2017	50,000	4,750	40,800	95,550	43
Chandra Kantamneni (retired 24 May 2018)	**2018**	**38,815**	**3,687**	**-**	**42,502**	**-**
	2017	42,500	4,038	40,800	87,338	47
Vivek Rao	**2018**	**5,381**	**511**	**-**	**5,892**	**-**
	2017	-	-	40,800	40,800	100
James Walker	**2018**	**43,125**	**4,097**	**-**	**47,222**	**-**
	2017	-	-	-	-	-
Stephe Wilks*	**2018**	**5,000**	**475**	**-**	**5,475**	**-**
	2017	-	-	-	-	-
George Venardos (retired 21 November 2016)	**2018**	**-**	**-**	**-**	**-**	**-**
	2017	28,408	2,699	-	31,107	-
Total	**2018**	**199,105**	**11,790**	**-**	**210,895**	**-**
Total	2017	181,087	11,487	204,000	396,574	-

. .* S Wilks' remuneration is paid to High Expectations Pty Ltd, a company in which Mr Wilks has a beneficial interest

EXECUTIVE REMUNERATION

The Board's policy for determining the nature and amount of remuneration for executives of the consolidated entity is as follows:

All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, access to a limited short term cash incentive scheme and to the longer term incentive scheme via options. Short term incentives are only paid once predetermined annual key performance indicators have been met and are capped at 20% of base salary. Longer term incentives may be paid in the form of options or rights and are intended to align the interests of the key management personnel and company with those of shareholder. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.

The remuneration and nominations committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from similar industry sectors.

The performance of executives is measured against criteria agreed annually with each executive and is based predominantly on the achievement of specific BluGlass technology and commercial milestones being achieved and the efficient conduct of the Company's operations. All bonuses and incentives are linked to these predetermined performance criteria or milestones. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to reward executives for performance that will result in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements under the employee incentive scheme.

Executives receive a superannuation guarantee contribution required by the government, which is currently 9.5%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to executives is valued at the cost to the company and expensed. Shares given to executives are valued as the difference between the market price of those shares and the amount paid by the executive. Options issued during the year are valued at the closing share price at grant date less the exercise price where appropriate.

EXECUTIVE TOTAL REMUNERATION

		SHORT TERM		POST EMPLOY-MENT	LONG TERM INCENTIVES	TOTAL REMUN-ERATION	% OF REMUNERATION	
		Cash Salary	KPI Related Incentive	Superann uation	Share Based Payments	Total	Perform-ance based	Options based
Executives		$	$	$	$	$		
Giles Bourne	**2018**	**315,836**	**45,000**	**28,875**	**130,000**	**519,711**	**8.7**	25.0
	2017	315,813	61,179	27,666	-	404,658	15.1	-
Ian Mann	**2018**	**264,390**	**35,000**	**28,278**	**130,000**	**457,668**	**7.6**	28.4
	2017	232,906	22,247	29,714	-	284,867	7.8	-
Stuart Uhlhorn (retired 20 October 2017)	**2018**	**59,621**	**-**	**22,714**	**-**	**82,335**	**-**	**-**
	2017	167,534	35,861	33,373	-	236,768	15.1	-
Total	**2018**	**639,847**	**80,000**	**79,867**	**260,000**	**1,059,714**		
Total	2017	716,253	119,287	90,753	-	926,293		

The value of share based payments in the above table reflects the full market price of the underlying BluGlass share price at the date of issue less exercise price and may not reflect the current market value of the shares granted. Additionally no discount for uncertainty has been assigned to these valuations, which do carry the risk of not meeting vesting
hurdles.

CONTRACTED EXECUTIVE REMUNERATION

The company secretary, Emmanuel Correia is contracted to BluGlass from Cardrona Energy Pty Ltd. The contract includes provisions that the contract may be terminated by either party with one months' notice. Payments for services to Cardrona were $79,200 in 2017 and 2018. As a contracted position the company secretary does not form part of the BluGlass' executive team.

EMPLOYMENT CONTRACTS OF EXECUTIVES

The employment terms and conditions of the CEO and other executives are formalised in contracts of employment. All executives are permanent employees of BluGlass Limited.

Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of one months' notice prior to termination of contract. The CEO's contract is subject to 3 months' notice. Termination payments are determined by the remuneration and the nominations committee if a termination payment is deemed appropriate. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least one months' notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

PERFORMANCE BASED REMUNERATION

As part of the executive remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with executives to ensure buy-in. The measures are specifically tailored to the areas each executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, and cover financial and non-financial as well as short and long term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved and the period of employment for the period. Following the assessment, the KPIs are reviewed by the remuneration committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

The IP portfolio at the end of 30 June 2018 now includes 48 granted patents in various countries, covering six separate patent families. In addition there are 9 patent applications in various stages filed in numerous countries.

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	2013	2014	2015	2016	2017	2018
Revenue $'000	4,725.9	4,112.7	3,532.9	2,809.9	2,801.9	2,811.1
Net Loss $'000	1,676.7	2,898.4	3,173.9	3,427.6	3,660.6	3,840.3
Share price at year-end cents	15	12.5	5.8	21	26	30
Patents lodged	2	2	3	-	9	1
Patents Granted	2	14	5	9	14	2

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

OPTIONS ISSUED AS PART OF REMUNERATION FOR THE YEAR ENDED 30 JUNE 2018

Options, approved by the November 2017 AGM, were granted to executives as remuneration during the year. The conditions of the options were-

- The Company signs atleast one commercial IP licensing transaction with at Tier 1 industry participant
- Bluglass earns atleast $5 million in revenue from one or more licensing transactions within a 12 month period.
- The company earns $15 million in licensing transactions over a 3 year period.

No options were granted to Directors.

	Grant Details					Overall			
Executives	**Date**	**No.**	**Value $**	**Exercised no.**	**Lapsed no.**	**Vested no.**	**Vested %**	**Unvested %**	**Lapsed %**
								30/06/2018	
Giles Bourne	13/11/2017	1,000,000	130,000	-	-	-	-	-	-
Ian Mann	13/11/2017	1,000,000	130,000	-	-	-	-	-	-
				-	-	-	-	-	-

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MOVEMENT IN SHAREHOLDINGS OF KMP AS AT 30 JUNE 2018

	Total	Direct	* BLG ESS	**Movement**		**Total**	Direct	* BLG ESS
Non-Executives directors	**Opening Balance**			On	Off	**Closing Balance**		
William Johnson	**716,875**	436,875	280,000	40,540	-	**757,415**	477,415	280,000
James Walker	**-**	-	-	53,540	-	**53,540**	53,540	-
Vivek Rao	**-**	-	-	-	-	**-**	-	-
Stephe Wilks	**-**	-	-	-	-	**-**	-	-
Executives								
Giles Bourne	**2,242,416**	428,083	1,714,333	1,190,540	-	**3,332,956**	468,623	2,864,333
Ian Mann	**1,305,000**	25,000	1,280,000	890,540	400,000	**1,795,540**	65,540	1,730,000

* BLG ESS means vested options that have not yet been withdrawn from Employee Share Scheme Trust by the beneficiary.

OPTIONS HELD BY KMP AS AT 30 JUNE 2018

		Movement							
Non-Executive Directors	**Opening Balance**	**Vested in O/B**	**Vested in period**	**Total Vested**	**Exercised**	**Granted in period**	**Expired in Period**	**Closing Balance**	**Unvested %**
William Johnson	240,000	-	-	-	-	-	-	240,000	100
Vivek Rao	120,000	-	-	-	-	-	-	120,000	100
James Walker	-	-	-	-	-	-	-	-	-
Stephe Wilks	-	-	-	-	-	-	-	-	-
Executives									
Giles Bourne	1,150,000	-	1,150,000	1,150,000	1,150,000	1,000,000	-	1,000,000	100
Ian Mann	1,050,000	-	850,000	850,000	850,000	1,000,000	200,000	1,000,000	100

Options are vested when vesting criteria have been met. Options are then converted into ordinary shares and held in the BluGlass Employee Share scheme Trust until they are elected to be withdrawn by the beneficiary.

For clarity the vested options held as shares in the Trust are also disclosed in the KMP's shareholding above as they can be exercised and withdrawn at any time once vested.

SHARES ISSUED ON EXERCISE OF COMPENSATION OPTIONS

Options totalling 5,500,000 were exercised during the year by the Company's employee share trust, BluGlass Employee Incentive Plan Pty Ltd. When options that have been granted as compensation in prior periods meet the requisite vesting conditions they are exercised by the trust into shares. These shares are then held in the share trust for the eligible employees until employees exercise their right to withdraw the shares from the trust. During the year 4,612,333 shares were withdrawn from the trust.

APPROVAL OF 2017 REMUNERATION REPORT

A resolution seeking approval of the 2017 Remuneration Report was tabled at the November 2017 Annual General Meeting. The resolution was passed at that meeting with the vote in favour recorded of 99.5%.

REMUNERATION ADVISORS

No remuneration advisors were engaged during the year or any formal remuneration advice was received during the year.

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- END OF REMUNERATION REPORT – AUDITED -

DIRECTORS' REPORT cont.

MEETINGS OF DIRECTORS

During the financial year, 8 meetings of directors were held. Attendances by each director during the year were:

	DIRECTORS' MEETINGS		COMMITTEE MEETINGS			
			Audit & Risk Committee		Remuneration & Nominations Committee	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Gregory Cornelsen (retired 1 March 2018)	5	5	1	1	-	-
Chandra Kantamneni (retired 24 May 2018)	8	8	2	2	-	-
William Johnson	8	8	2	2	1	1
Giles Bourne	8	8	-	-	-	-
Vivek Rao	8	8	-	-	1	1
James Walker	7	7	1	1	1	1
Stephe Wilks	-	-	-	-	-	-

INDEMNITIES GIVEN TO AND INSURANCE PREMIUMS PAID FOR AUDITORS AND OFFICERS

The Group has entered into Deeds of Indemnity, Insurance and Access with each of the directors and the Company Secretary. Each deed provides officers with the following:

- A right to access certain Board papers of the Group during the period of their tenure and for a period of seven years after that tenure ends;
- Subject to the Corporations Act 2001, an indemnity in respect of liability to persons other than the Group and its related bodies corporate that they may incur while acting in their capacity as an officer of the Group or a related body corporate, except where that liability involves a lack of good faith, and for defending certain legal proceedings; and the requirement that the Group maintains appropriate directors' and officers' insurance for the officer.
- No liability has arisen under these indemnities as at the date of this report.
- The Company has paid premiums of $31,000 (2017: $29,350) to insure each of the directors, secretary and executives against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of a director or officer of the company, other than conduct involved in a wilful breach of duty in relation to the company.
- The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Group against a liability incurred as such by an officer or auditor.

OPTIONS

At the date of this report, the unissued ordinary shares of BluGlass Limited under option are as follows:

Options

At the date of this report, the unissued ordinary shares of BluGlass Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
23/11/2016	1/12/2018	0.01	600,000
23/11/2016	1/12/2018	0.5	1,500,000
13/11/2017	1/12/2020	0.28	2,000,000
			4,100,000

During the year ended 30 June 2018, 5,500,000 ordinary shares of BluGlass Limited were issued on the exercise of options.

CORPORATE GOVERANCE POLICY AND STATEMENT

The Groups Corporate Governance statement can be viewed on the company's website at www.bluglass.com.au

DIVERSITY POLICY

BluGlass has established a Diversity Policy that outlines the Company's commitment to diversity and the active steps the Company will take in implementing the policy, commensurate with a company of its size and the industry with which it operates. A copy of the Diversity Policy is contained in Annexure 7 of the Company's Corporate Governance Statement, a copy of which is available on the Company's website.

Our policy is to recruit and manage on the basis of qualification for the position and performance, regardless of gender, age, nationality, race, religious beliefs, cultural background, sexuality or physical ability. Due to the Company's current size and level of activity there has been limited opportunity with which to measure the Company's commitment to its diversity policy during the 2018 financial year. During the year there was minimal staff movement and no change to the Company's executive team. The board discusses its diversity policy at board meeting's were potential changes to the work force is discussed.

It is essential that the Company employs the appropriate person for each job and that each person strives for a high level of performance.

Ethnic Diversity

Total Staff	Australian and NZ	Asian	Americas	European
20	9	5	1	5

Gender Diversity

	Male	Female
Total Staff	12	8
Senior Executives	2	-
Senior Research Staff	2	2
Non-Executive Directors	4	-

DIVERSITY POLICY (Cont)

Educational Diversity

Total Staff	PhD	Masters	Bachelor	Other Qualifications	No Qualifications
20	9	10	15	3	2

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party of taking responsibility on behalf of that company for all or any part of those proceedings.

NON-AUDIT SERVICES

The Board of directors, in accordance with advice from the Audit and Risk committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Audit and Risk committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

There were no fees for non-audit services payable to the external auditors during the year ended 30 June 2018.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration as required by s307C of the Corporation Act 2001 for the year ended 30 June 2018 has been received and can be found on page 24 and forms part of the Directors' Report.

This Directors' Report incorporating the Remuneration Report is signed in accordance with a resolution of the Board of Directors.

William Johnson

Chairman
Dated the 28th day of August 2018

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Auditor's Independence Declaration

To the Directors of Bluglass Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Bluglass Limited for the year ended 30 June 2018 I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

P J Woodley
Partner – Audit & Assurance

Sydney, 28 August 2018

PROFIT OR LOSS AND COMPREHENSIVE INCOME

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated Entity	
		2018 $	2017 $
Revenue	2	870,967	684,855
Other income	2	1,940,096	2,116,995
Employee benefits expense	16	(2,996,119)	(3,145,137)
Professional fees		(129,344)	(136,403)
Board and secretarial fees		(282,358)	(260,039)
Corporate compliance & legal expense		(174,335)	(92,836)
Consultant fees		(352,912)	(346,885)
Rent expense		(281,483)	(271,084)
Travel and accommodation expense		(210,736)	(132,073)
Consumables		(1,158,198)	(896,515)
Depreciation and amortisation expense		(191,147)	(474,747)
Other expenses		(874,693)	(706,688)
Loss before income tax	3	**(3,840,262)**	**(3,660,557)**
Income tax expense	4	-	-
Loss for the period		**(3,840,262)**	**(3,660,557)**
Other comprehensive income			
Total comprehensive income		**(3,840,262)**	**(3,660,557)**
Loss attributable to:			
- Members of the parent entity		(3,840,262)	(3,660,557)
- Non-controlling interest		-	-
		(3,840,262)	(3,660,557)
Total Comprehensive Income attributable to:			
- Members of the parent entity		(3,840,262)	(3,660,557)
- Non-controlling interest		-	-
		(3,840,262)	(3,660,557)
Earnings Per Share			
Basic loss per share (cents per share)	6	(0.99)	(0.98)
Diluted loss per share (cents per share)	6	(0.99)	(0.98)

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

FINANCIAL POSITION

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	Consolidated Entity	
		2018 $	2017 $
Current Assets			
Cash and cash equivalents	7	15,353,774	8,510,931
Trade and other receivables	8	2,253,440	2,216,672
Inventories	9	53,890	103,843
Other current assets	10	54,602	52,227
TOTAL CURRENT ASSETS		**17,715,706**	**10,883,673**
Non-Current Assets			
Property, plant and equipment	11	258,966	336,200
Intangible assets	12	8,695,000	8,695,000
TOTAL NON-CURRENT ASSETS		**8,953,966**	**9,031,200**
TOTAL ASSETS		**26,669,672**	**19,914,873**
Current Liabilities			
Trade and other payables	14	529,701	460,606
Short-term provisions	15	433,368	400,865
TOTAL CURRENT LIABILITIES		**963,069**	**861,471**
Non-Current Liabilities			
Long-term provisions	15	317,604	351,590
TOTAL NON-CURRENT LIABILITIES		**317,604**	**351,590**
TOTAL LIABILITIES		**1,280,673**	**1,213,061**
NET ASSETS		**25,388,999**	**18,701,811**
Equity			
Issued capital	17	67,380,834	56,630,407
Reserves	18	(653,638)	175,181
Accumulated Losses		(41,338,197)	(38,103,777)
TOTAL EQUITY		**25,388,999**	**18,701,811**

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

CHANGES IN EQUITY

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2018

	Issued Capital	Share-Based Payments Reserve	Other Reserves	Accumulated Losses	Total
	$	$	$	$	$
Consolidated Entity					
Balance at 1 July 2016	48,575,895	1,086,527	(982,452)	(34,443,220)	14,236,750
Profit for the year	-	-	-	(3,660,557)	(3,660,557)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**(3,660,557)**	**(3,660,557)**
Transactions with owners in their capacity as owners					
Shares issued during the year	8,126,000	-	-	-	8,126,000
Share transaction costs during the year	(612,904)	193,532	-	-	(419,372)
Share options issued	-	390,570	-	-	390,570
Exercise of share option	541,416	(512,996)	-	-	28,420
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2017	**56,630,407**	**1,157,633**	**(982,452)**	**(38,103,777)**	**18,701,811**
Balance at 1 July 2017	56,630,407	1,157,633	(982,452)	(38,103,777)	18,701,811
Profit for the year	-	-	-	(3,840,262)	(3,840,262)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	**-**	**-**	**-**	**(3,840,262)**	**(3,840,262)**
Transactions with owners in their capacity as owners					
Shares issued during the year	11,227,948	-	-	-	11,227,948
Share transaction costs during the year	(811,721)	-	-	-	(811,721)
Share options issued	-	56,223	-	-	56,223
Exercise of share options	334,200	(279,200)	-	-	55,000
Transfer to reserve		(605,842)		605,842	-
Dividends paid or provided for	-	-	-	-	-
Balance at 30 June 2018	**67,380,834**	**328,814**	**(982,452)**	**(41,338,197)**	**25,388,999**

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

CASHFLOWS

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	Consolidated Entity 2018 $	2017 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from grants		-	-
Receipts from customers		713,826	550,087
Interest and other income received		2,097,237	2,251,763
Payments to suppliers and employees		(6,325,534)	(5,398,634)
Net cash used in operating activities	**21**	**(3,514,471)**	**(2,596,784)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(113,913)	(37,000)
Net cash used in investing activities		**(113,913)**	**(37,000)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares, net of transaction costs		10,416,227	7,706,595
Proceeds from options exercised		55,000	28,420
Net cash provided by financing activities		**10,471,227**	**7,735,015**
Net increase in cash held		6,842,843	5,101,231
Cash at beginning of financial year		8,510,931	3,409,700
Cash at end of financial year	**7**	**15,353,774**	**8,510,931**

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The separate financial statements of the parent entity BluGlass Limited have not been presented within this financial report as permitted by the Corporations Act 2001.

The financial statements were authorised for issue on 28th August 2018 by the directors of the company

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report.

Basis of Preparation

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). BluGlass Limited is a for-profit entity for the purpose of preparing financial statements.

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

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) **Principles of Consolidation**

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by BluGlass Limited at the end of the reporting period. Bluglass controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities are included only for the period of the year they were controlled. A list of controlled entities is contained in Note 13 to the financial statements. All controlled entities have a June financial year-end.

In preparing the consolidated financial statements all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the parent entity.

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

(b) **Income Tax**

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

Current income tax expense charged to the profit and loss is the tax payable on taxable income calculated using applicable tax rates enacted, or substantially enacted, as at reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) **Income Tax (cont.)**

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the consolidated entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Tax consolidation

BluGlass Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. BluGlass Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office that it had formed an income tax consolidated group to apply from 21 September 2006. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) **Inventories**

Inventories are measured at the lower of cost and net realisable value.

(d) **Plant and Equipment**

Each class of plant and equipment is carried at cost as indicated, less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets is depreciated on a straight-line basis over their useful lives to the consolidated group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Furniture and Fittings	10%
Plant and equipment	20-100%
Leasehold improvements	33.33%
Computer hardware and software	33.33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the profit or loss statement.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(e) **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(f) **Financial Instruments**

Recognition and measurement

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument.

Financial instruments are initially measured at fair value plus transaction costs where the instrument is not classified as at fair value through profit and loss. Transaction costs related to instruments classified as at fair value through profit and loss are expensed to the profit and loss immediately. Financial instruments are classified and measured as set out below.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost using the effective interest rate method.

Impairment

At each reporting date, the group assess whether there is objective evidence that a financial instrument has been impaired. In the case of available-for sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether impairment has arisen. Impairment losses are recognised in the profit or loss.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(g) **Impairment of assets**

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

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

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

(h) **Intangibles**

Patents and trademarks

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

Research and development

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

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

Intellectual property

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

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

Functional and presentation currency

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

Transaction and balances

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

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

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

(j) **Employee Benefits**

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

Equity-settled compensation

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

(k) **Provisions**

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

(l) **Cash and Cash Equivalents**

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

(m) **Revenue and Other Income**

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

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

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

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

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

(o) **Government Grants**

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

(p) **Borrowing Costs**

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

(q) **Comparative Figures**

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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

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

Key estimates — Impairment

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

Key estimates — Share options

The company issued options under the BluGlass Limited prospectus and the employee incentive option scheme. The options granted in the year were valued using the BluGlass share price at the date of grant. The prior year options were valued the same as they are currently valued. The key inputs to the pricing model are disclosed on Note 22. In addition to the pricing, key judgements revolve around the likelihood of vesting and estimated vesting date where there are vesting conditions. These judgements impact the expense recorded for the period.

Key estimates — Deferred Taxes

Deferred taxes have not been recognised on the Company's tax losses due to the uncertainty in relation to the timing of the losses being utilised in the future.

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

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2017. Information on the more significant standard(s) is presented below.

AASB 2016-1 *Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses*
AASB 2016-1 amends AASB 112 *Income Taxes* to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.
AASB 2016-1 is applicable to annual reporting periods beginning on or after 1 January 2017.
AASB 2016-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107*
AASB 2016-2 amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
AASB 2016-2 is applicable to annual reporting periods beginning on or after 1 January 2017

(t) **Accounting Standards issued but not yet effective and not adopted early by the Group**

A number of new standards, amendments to standards and interpretations are effective for financial years beginning on or after 1 July 2018, and have not been applied in preparing these consolidated financial statements. Of the new standards, only the below are expected to have as effect on the consolidated financial statements of the Group.

- AASB 15 Revenue from Contracts with Customers that replaces AASB 118 Revenue, AASB 111 Construction contracts and some revenue related interpretations which becomes mandatory for 30 June 2019 consolidated financial statements.
    - Establishes a new revenue recognition model
    - Changes the basis for deciding whether revenue is to be recognised over time or at a point in time.
    - Provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, right of return, warranties and licensing)
    - Expands and improves disclosure about revenue.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- AASB 16 Leases replaces AASB 117 Leases and some lease related interpretations which becomes mandatory for the Groups 30 June 2020 consolidated financial statements.
    - Requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases.
    - Provides new guidance on the application of the definition of lease and on sale and lease back accounting
    - Largely retains the existing lessor accounting requirements in AASB117
    - Requires new and different disclosures about leases.

Based on the entity's assessment, it is expected that the first-time adoption of AASB 16 for the year ending 30 June 2020 will have a material impact on the transactions and balances recognised in the financial statements, in particular:

- Lease assets and financial liabilities on the balance sheet will increase by an estimated $1,447,320 (based on the facts at the date of the assessment)
- Financial liabilities will increase by $1,628,190.
- Profit before tax is expected to increase by $59,223 as the depreciation expense and interest expense on future payments is expected to be greater than the minimum lease payments for that period.
- There will be a reduction in the reported equity as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

The main changes are:

a. Financial assets that are debt instruments will be classified based on:
   (i) the objective of the entity's business model for managing the financial assets; and
   (ii) the characteristics of the contractual cash flows.

b. Allows 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 (instead of in profit or loss). 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.

c. Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.

d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: − the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI) − the remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

When this standard is first adopted for the year ending 30 June 2019, there will be no material impact on the transactions and balances recognised in the financial statements.

The Group does not plan to adopt these standards early.

(u) **Going Concern**

Notwithstanding the net loss for the year and the accumulated losses for the Consolidated Group, the directors have performed a review of the cash flow forecasts and consider the Company to be a going concern.

The directors have approved the company's forward business plans with an understanding that sufficient cash resources are available to meet the company's commitments over the next twelve months.

The directors have prepared the financial statements on a going concern basis as the company also has a number of options for raising future capital requirements. Additionally as a fall back equity based funding options are available to the company to continue its research and development efforts.

NOTE 2: REVENUE AND OTHER INCOME

	Consolidated Entity	
	2018	**2017**
	$	**$**
Revenue		
— interest received from other persons	157,141	134,768
— Other revenue - foundry revenue	713,826	550,087
Total Revenue	870,967	368,144
Other Income		
— Research and development tax rebate	1,940,096	2,116,995
Total other income	1,940,096	2,116,995

NOTE 3: LOSS FOR THE YEAR

	Consolidated Entity	
Expenses:	**2018**	**2017**
	$	**$**
Rental Expense on operating leases		
— Minimum lease payments	281,483	271,084
Share based payments	56,223	390,570

NOTE 4: INCOME TAX EXPENSE

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

NOTE 4: INCOME TAX EXPENSE (cont.)

	Consolidated Entity	
	2018	**2017**
	$	**$**
(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 27.5% (2017: 30%)		
— consolidated entity	(1,152,076)	(1,098,167)
Add:		
Tax effect of:		
— IPO related costs(deductible over 5 years)	-	92,709
— share based payments during year	16,867	113,315
— other non-allowable items	50,054	40,743
	66,921	246,767
Add:		
Income tax benefit not brought to account	(1,085,155)	(781,503)
Income tax benefit attributable to the entity		-
Accumulated tax losses not brought to account	7,562,903	6,477,748

NOTE 5: AUDITORS' REMUNERATION

	Consolidated Entity	
	2018	**2017**
	$	**$**
Remuneration of the auditor for:		
— auditing or reviewing the financial report	65,500	62,650
— Other Services	7,500	-
	73,000	62,650

NOTE 6: LOSS PER SHARE

		Consolidated Entity	
		2018	**2017**
		$	**$**
(a)	Loss attributable to members of the parent entity	(3,840,262)	(3,660,557)
(b)	Basic and diluted loss per share (cents per share)	(0.99)	(0.98)
		No.	**No.**
(c)	Weighted average number of ordinary shares outstanding during the year used in calculating basic and diluted EPS.	389,368,754	372,397,916

NOTE 7: CASH AND CASH EQUIVALENTS

	Consolidated Entity	
	2018	**2017**
	$	**$**
Cash at bank and in hand	640,875	587,038
Short-term bank deposits	14,712,524	7,923,485
Petty cash	375	408
	15,353,774	8,510,931

The effective interest rate on short-term bank deposits was 1.9% (2017:2.23%), these deposits have an average maturity of less than 14 days.

NOTE 8: TRADE AND OTHER RECEIVABLES

	Consolidated Entity	
	2018	2017
	$	$
Research and development tax rebate	2,000,000	2,100,000
Trade receivables	105,556	63,719
Other receivables	147,884	52,953
	2,253,440	2,216,672

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 (2017: nil).

NOTE 9: INVENTORIES

	Consolidated Entity	
	2018	2017
	$	$
CURRENT		
Consumables at cost	53,890	103,843
	53,890	103,843

NOTE 10: OTHER CURRENT ASSETS

	Consolidated Entity	
	2018	2017
	$	$
CURRENT		
Prepayments	25,220	24,861
Security deposit	14,516	14,516
Other assets	14,866	12,850
	54,602	52,227

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 (2017: nil).

NOTE 11: PLANT AND EQUIPMENT

	Consolidated Entity	
	2018	2017
	$	$
PLANT AND EQUIPMENT		
Plant and equipment		
At cost	6,238,257	6,226,689
Accumulated depreciation	(6,110,131)	(5,948,817)
Total plant and equipment	128,126	277,872

NOTE 11: PLANT & EQUIPMENT (cont.)

	Consolidated Entity	
	2018	2017
	$	$
Leased plant and equipment		
At cost	1,006,170	1,006,170
Accumulated depreciation	(1,006,170)	1,006,170
	-	-
Leasehold improvements		
At cost	3,876,775	3,797,008
Accumulated depreciation	(3,787,671)	(3,783,003)
Total leasehold improvements	89,104	14,005
Furniture and fittings		
At cost	146,094	146,094
Accumulated depreciation	(142,298)	(138,287)
Total furniture and fittings	3,796	7,807
Computer equipment		
At cost	335,355	312,777
Accumulated depreciation	(297,415)	(276,261)
Total computer equipment	37,940	36,516
Total property, plant and equipment	258,966	336,200

(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 2017	-	277,872	14,005	7,807	36,516	336,200
Additions	-	11,568	79,767	-	22,578	113,913
Disposals	-	-	-	-	-	-
Depreciation expense	-	(161,314)	(4,668)	(4,011)	(21,154)	(191,147)
Balance at 30 June 2018	-	128,126	89,104	3,796	37,940	258,966

NOTE 12: INTANGIBLE ASSETS

	Consolidated Entity	
	2018 $	2017 $
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 Acuity Technology Management Pty Ltd to assist the directors in assessing impairment of IP. The methodology used by the independent valuer to determine the value of the intellectual property was based on a discounted cash flow (DCF) method adjusted for the probability of achieving certain milestones. The DCF was based on management cash flow projections for 10 years covering a variety of revenue scenarios that includes, manufacturing and royalties. The market information has been drawn from industry sources and the Company's current level of technology development. 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% (2017:15% to 17%). Other general market considerations have been considered including the market capitalisation of BluGlass. The IP was assessed to have a value between $19.1 million to $21.9 million and therefore no impairment has been required.

NOTE 13: CONTROLLED ENTITIES

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2018	2017
Parent Entity:			
BluGlass Limited	Australia	-	-
Subsidiaries of BluGlass Limited:			
Gallium Enterprises Pty Ltd	Australia	100	100
BluSolar Pty Ltd	Australia	100	100
BluGlass Deposition Technologies Pty Ltd	Australia	100	100
BluGlass Research Pty Ltd	Australia	100	100
EpiBlu Technologies Pty Ltd	Australia	100	100

* Percentage of voting power is in proportion to ownership

NOTE 14: TRADE AND OTHER PAYABLES

	Consolidated Entity	
	2018 $	2017 $
CURRENT		
Trade payables	92,661	189,502
Sundry payables and accrued expenses	437,040	271,104
	529,701	460,606

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

NOTE 15: PROVISIONS

	Consolidated Entity	
	2018 $	2017 $
Current		
Employee benefits	433,368	400,865
Total Current Provisions	**433,368**	**400,865**
Non-Current		
Lease make good	200,000	200,000
Employee benefits	117,604	151,690
Total Non-current provisions	**317,604**	**351,690**
	750,972	**752,455**

	Lease Make Good $	Employee Benefits $	Total $
Consolidated Group			
Opening balance at 1 July 2017	200,000	552,455	752,455
Additional provisions	-	193,630	193,630
Amounts used	-	(195,113)	(195,113)
Balance at 30 June 2018	200,000	550,972	750,972

NOTE 16: EMPLOYEE BENEFITS EXPENSE

	Consolidated Entity	
	2018 $	2017 $
Wages and salaries	2,703,023	2,538,458
Share-based payments	56,223	390,570
Superannuation	236,873	216,109
	2,996,119	3,145,137

NOTE 17: ISSUED CAPITAL

	Consolidated Entity	
	2018	**2017**
	$	**$**
418,307,072 (2017: 382,461,266) fully paid ordinary shares	67,380,834	56,630,407
	67,380,834	56,630,407

The company has authorised share capital amounting to 418,307,072 ordinary shares.

Ordinary Shares	**No.**	**$**
At the beginning of reporting period	382,461,266	56,630,407
Shares issued during the year		
— 31 October 2017	5,500,000	334,200
— 25 May 2018	24,859,453	9,197,998
— 20 June 2018	5,486,343	2,029,950
Share issue costs	-	(811,721)
At reporting date	418,307,072	67,380,834

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

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

(b) Options

For information relating to the BluGlass Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, refer to Note 22 Share-based Payments.

(c) Capital Management

Management controls the capital of the consolidated entity in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the consolidated entity can fund its operations and continue as a going concern.

The consolidated entity's capital comprises ordinary share capital.

There are no externally imposed capital requirements.

There have been no changes in the strategy adopted by management to control the capital of the consolidated entity since the prior year.

NOTE 18: RESERVES

(a) **Share based payments**

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

(b) **Other reserves**

This reserve is used to recognise the difference between purchase consideration paid and the non-controlling interest carrying value.

NOTE 19: CAPITAL AND LEASING COMMITMENTS

	Consolidated Entity	
	2018 $	2017 $
(a) **Operating Lease Commitments:**		
Non-cancellable operating lease contracted for but not capitalised in the financial statements		
Payable - minimum lease payments		
— not later than 12 months	233,972	233,972
— Between 12 months and 5 years	701,915	935,888
— greater than 5 years	136,484	136,484
	1,072,372	1,306,344

The lease was renewed for an additional term of five years from February 2018. The property lease is a non-cancellable lease with a five year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the greater of CPI or 4.0% per annum. The lease does not allow for subletting of any lease areas.

NOTE 20: OPERATING SEGMENTS

(a) **Business and geographical segments**

The Group identified its operating segments based on the internal reports that are reviewed and used by the Board of Directors (chief operating decision makers) in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of research and development activities. The Group's operation has one main risk profile and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

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

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

The Group operates in one geographical area being in Australia. The Group did not undertake any new operations and it did not discontinue any of its existing operations during the year.

NOTE 21: CASH FLOW INFORMATION

	Consolidated Entity	
	2018 $	2017 $
(a) **Reconciliation of Cash Flow from Operations with Loss after Income Tax**		
Loss after income tax	(3,840,262)	(3,660,557)
Non-cash flows in loss		
Depreciation expense	191,147	474,747
Share based payment	56,223	390,570
Other Non-cash items		
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
Decrease/ (increase) in trade and other receivables	58,163	(53,719)
(Increase)/decrease in other assets	(94,998)	16,117
Decrease/ (increase) in inventories	49.953	(2,525)
Increase in trade and other payables and accruals	66,793	153,486
(Decrease)/increase in provisions	(1,490)	85,097
Cash flow used in operations	(3,514,471)	(2,596,784)

NOTE 22: SHARE-BASED PAYMENTS

The following share-based payments existed at 30 June 2018:

	Consolidated Entity			
	2018		2017	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	8,770,000	0.09	9,512,000	0.01
Granted	2,000,000	0.28	2,100,000	0.36
Forfeited	-	-	-	-
Exercised	(5,500,000)	0.01	(2,842,000)	0.01
Expired	(1,170,000)	0.01	-	-
Outstanding at year-end	4,100,000	0.32	8,770,000	0.09
Exercisable at year-end	-	-	-	-

The options outstanding at 30 June 2018 had a weighted average exercise price of $0.32 and a weighted average remaining contractual life of 1.5 years. (Option prices were $0.01 in respect of options outstanding at 30 June 2017).

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 $56,223 (2017: $390,570) and relates, in full, to equity-settled share-based payment transactions.

NOTE 23: RELATED PARTY TRANSACTIONS

	Consolidated Entity	
	2018	**2017**
	$	**$**
The totals of remuneration paid to key management personnel of the group during the year are as follows:		
Short term employment benefits	918,952	1,016,627
Post-Employment benefits	91,657	99,541
Share-based payments	260,000	204,000
	1,270,609	1,320,168

Key Management Personnel have had no other transactions with the group during the year, and the group has no other related parties.

NOTE 24: FINANCIAL RISK MANAGEMENT

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

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

	Note	Consolidated Entity	
		2018	2017
Financial Assets		$	$
Cash and cash equivalents	7	15,353,774	8,510,931
Trade and other receivables	8	2,253,400	2,216,672
		17,607,174	10,727,603
Financial Liabilities			
Trade and other payables	14	529,708	460,606
		529,708	460,606

The Audit and Risk Committee (ARC) has been delegated responsibility by the Board of Directors for, amongst other issues, monitoring and managing financial risk exposures of the Group. The ARC monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counter party credit risk, currency risk, financing risk and interest rate risk. The ARC meets regularly and minutes are reviewed by the Board.

The ARC's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risk the Group is exposed to through its financial instruments is interest rate risk. Other risks include foreign currency risk, liquidity risk, credit risk, and commodity and equity price risk.

The maximum exposure to financial risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

(a) **Credit Risk**

The group does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated entity.

(b) **Price Risk**

The group has no exposure to commodity price risk.

NOTE 24: FINANCIAL RISK MANAGEMENT (cont.)

(c) **Liquidity Risk**

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

The Group's objective is to maintain cash and marketable securities to meet its liquidity requirements for 30-day periods at a minimum. This objective was met for the reporting periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

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

As at 30 June 2018 the Group's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarised below:

	Current		Non-Current	
30 June 2018	**Within 6 months**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
	$	**$**	**$**	**$**
Trade and other payables	529,701	-	-	-
Total	529,701	-	-	-

	Current		Non-Current	
30 June 2017	**Within 6 months**	**6 to 12 months**	**1 to 5 years**	**Later than 5 years**
	$	**$**	**$**	**$**
Trade and other payables	460,606	-	-	-
Total	460,606	-	-	-

NOTE 24: FINANCIAL RISK MANAGEMENT (cont.)

(d) **Market Risk**

(i) *Foreign Exchange Risk*

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

(ii) *Interest Rate Risk*

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

	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2018 $	2018 %	2017 $	2017 %
Consolidated Entity				
Financial Assets:				
Cash	641,250	1.0	587,446	1.0
Investments in term deposits and bank bills	14,712,524	1.9	7,923,485	2.1
Total Financial Assets	15,353,774		8,510,931	

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 2018 have maturities of less than 45 days and carrying value represents net fair value.

(v) *Sensitivity analysis*

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

NOTE 25: CONTINGENT LIABILITIES

Contingent liabilities includes, the lease for 74 Asquith Street is supported by a CBA bank guarantee for $138,100. Collateral for the bank guarantee is a set-off against cash invested with the CBA for $138,100. The CBA also holds a Guarantee against the company credit cards of $50,000.

NOTE 26: EVENTS AFTER BALANCE SHEET DATE

No significant events have occurred after balance sheet date.

NOTE 27: BLUGLASS LTD PARENT COMPANY INFORMATION

	2018	2017
	$	$
Parent entity		
Assets		
Current assets	17,690,615	10,860,889
Non-current assets	13,471,602	13,548,836
Total assets	31,162,217	24,409,725
Liabilities		
Current liabilities	1,217,988	1,152,712
Non-current liabilities	2,191,456	2,191,456
Total liabilities	3,409,444	3,344,168
Net Assets	27,752,773	21,065,557
Equity		
Issued capital	67,380,834	56,630,407
Accumulated Losses	(38,974,423)	(35,740,031)
Share based payments reserve	328,814	1,157,633
Other reserve	(982,452)	(982,452)
Total Equity	27,752,773	21,065,557
Financial performance		
Loss for the year	(3,840,262)	(4,720,074)
Other comprehensive income	-	-
Total comprehensive income	(3,840,262)	(4,720,074)

NOTE 28: COMPANY DETAILS AND PRINCIPAL PLACE OF BUSINESS

The registered office and principal place of business of the company is:

BLUGLASS LIMITED
74 ASQUITH STREET
SILVERWATER NSW 2128
Ph: +61 2 9334 2300

DIRECTORS' DECLARATION

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

a. the consolidated financial statements and notes of BluGlass Limited are in accordance with the Corporations Act 2001, including

i giving a true and fair view of its financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and

ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b. there are reasonable grounds to believe that BluGlass Limited will be able to pay its debts as and when they become due and payable.

2. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2018.

3. Note 1 confirms that the consolidated financial statements also comply with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors:

William Johnson
Chairman
Dated this 28th Day of August 2018

Giles Bourne
Managing Director and Chief Executive Officer
Dated this 28th Day of August 2018

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Sydney NSW 2000

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Independent Auditor's Report

To the Members of Bluglass Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Bluglass Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a Giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year ended on that date; and

b Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Intangible asset impairment (Note 12)	
The Group has an intangible asset recorded on the Statement of Financial Position totalling $8.7m, relating to Intellectual Property (IP) associated with the acquisition of Gallium Enterprise. The IP represents in process research relating to core technology which was recognised at cost of acquisition. The asset is not currently ready for use. AASB 138: Intangible Assets sets out the specific requirements to be met in order to capitalise development costs. AASB 136: Impairment of Assets requires an entity to test for impairment, at least annually, the carrying amount of an intangible asset that is not yet available for use. This area is a key audit matter due to the subjectivity and management judgement applied in the assessment of whether costs meet the development phase criteria described in AASB 138 and in relation to the impairment testing required by AASB 136.	Our procedures included, amongst others: • assessing managements determination of the Group's CGUs based on our understanding of the nature of the Group's business; • evaluating managements processes to obtain and document an understanding of their process and controls to assess the risk of impairment; • reviewed management's valuation of IP prepared by Management's external expert; • assessed the competence and independence of Management's external expert; • assessing the model's compliance with accounting standards; • obtained from management available evidence to support the key assumptions within the model including performing sensitivity analysis on the key assumptions including discount rates and revenue model; • tested the mathematical accuracy of the model; • considered the reasonableness of the revenue and costs forecasts against current year actuals; • reviewing historical reliability of budgets and forecasts to support managements estimation process; and • assessing the adequacy of disclosures in the financial statements.

Research and Development Rebate (Note 2 and Note 8)

The Group accounts for the Research and Development (R&D) Rebate tax incentive as a Government Grant in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance.

An R&D plan is filed with AusIndustry in the following financial year and, based on this filing, the Group receives the incentive via a grant.

This area is a key audit matter due to the inherent subjectivity that is involved in the Group making judgements in relation to the calculation and recognition of the R&D rebate tax incentive income and receivable.

Our procedures included, amongst others:

- making enquiries with management to obtain and document an understanding of their process to calculate the R&D tax incentive;
- comparing the methodology and nature of the expenditure included in the current year estimate to the prior period claim;
- comparing the eligible expenditure used in the receivable calculation to the expenditure recorded in the general ledger;
- inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims;
- reviewing historical reliability of estimates and budgets and changes in legislation to support the reliability of the estimate;
- testing a sample of expenses to underlying supporting data to ensure their inclusion as eligible expenditure was appropriate;
- determine the use and reliance of management's expert in preparation of the R&D Return, evaluated the qualifications and expertise of the external specialist in order to assess their professional competence and capabilities as they relate to the work undertaken; and
- assessing the adequacy of disclosures in the financial statements.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors' for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 14 to 19 of the Directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Bluglass Limited, for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

P J Woodley
Partner – Audit & Assurance

Sydney, 28 August 2018