Appendix 4E

BLUGLASS LIMITED

ACN	Full Year Ended
116825793	**30 June 2008**
	Corresponding period was the twelve months ended 30 June 2007

Results for announcement to the market

RESULTS

		%		$A
Revenues from ordinary activities	Up	203	to	3,216,128
Profit/(Loss) from ordinary activities after tax attributable to members	Down	(20)	to	(2,686,867)
Profit/(Loss) for the period attributable to members	Down	(20)	to	(2,686,867)

EPS

Earnings per Security (cents per share)	30 Jun 2008	30 Jun 2007
Basic loss per share (cents per share)	(1.62) cents	(1.61) cents
Diluted loss per share (cents per share)	(1.62) cents	(1.61) cents

Net Tangible Asset Backing

	30 Jun 2008	30 Jun 2007
Per Ordinary Security (cents per share)	6.89 cents	8.12 cents

Dividend Payable

No dividends have been paid or declared during the period.

Dividend Re-investment Plan

There is no dividend re-investment plan in operation.

Control gained over entities having material effect

Name of entity (or group of entities)	NIL

Loss of control of entities having material effect

Name of entity (or group of entities)	NIL

Details of associates and joint venture entities

Name of entity (or group of entities)	NIL

This report is based on the Full Year Financial Report which has been subject to review by the Auditors. All the documents comprise the information required by Listing Rule 4.2A. This information should be read in conjunction with the Full Year Financial Report and the 30 June 2008 Annual Financial Report.

Review of Operations

Commercial Demonstration Tool Commissioned

BluGlass completed in June the installation of its fourth generation commercial demonstration tool at the company's headquarters in Silverwater, Sydney. The tool will be used to show global lighting industry leaders and semi-conductor manufacturers that BluGlass's unique LED technology is suitable for the mass production of semi-conductor products for use in general lighting applications. Marketing efforts are currently underway to demonstrate the process, with the intention of finalising orders during the current financial year to supply equipment and licence the use of BluGlass technology.

The tool was constructed with the close collaboration of three teams of engineers. The process chamber was manufactured by BluGlass's staff in Sydney, while the automated front-end handling unit was manufactured at Brooks Automation in Massachusetts and the gas delivery and process control units were supplied by EMF Semiconductor Systems in Ireland. The equipment was first assembled in Ireland, then decommissioned and shipped to Australia before being reassembled in the company's new clean room. It has since been undergoing system testing.

Silverwater Plant Opening

BluGlass's commercial demonstration plant was officially opened on July 17, 2008, by the Federal Minister of the Environment, Heritage and the Arts, the Hon Peter Garrett. The new plant and headquarters is a state-of-the-art facility comprising offices, clean rooms, workshop, and storage facilities and brings all of BluGlass's people and assets together under one roof.

The opening event was attended by many investors, the media and BluGlass suppliers and potential customers. Mr Garrett said in his opening address that advances being made by the company would make significant inroads in reducing the costs of producing LEDs. He said that "LED lighting was more energy efficient, and its adoption would be essential to reducing Australia's greenhouse gas emissions."

Research Tool Development and Sales

The company completed the design of a research tool to enable early market entry for its Remote Plasma Chemical Vapour Deposition (RPCVD) technology and to allow for additional research. The tool adds to the earlier generation tools that had previously been built during the research phase of the operations.
Negotiations were opened with universities to purchase the first research tool in a collaborative deal that also allows for joint research into new LED and related technologies. Interest in purchasing research tools has been shown from other international institutions.

AusIndustry Commercial Ready Grant Awarded

BluGlass was awarded a cash matched grant of $5 million over a three-year period from AusIndustry for the commercialisation of its unique Remote Plasma Chemical Vapour Deposition technology. The company is half way through the grant period and has already received $2.4 million. This was the second such AusIndustry grant received, the first one delivering on its requisite milestones in August 2007.

ARC Linkage Grant Received

An Australian Research Council linkage grant was awarded to BluGlass, Macquarie University and the Australian National University to advance the development and diagnosis of more efficient plasma sources for the RPCVD technology. The $460,000 grant was the second largest awarded nationally in the field of physical sciences.

Technology Milestones Achieved

Research Tool

The third generation research tool installed in the company's new Silverwater premises was modified to achieve a leap forward in the optoelectronic quality. The photo-luminescent output of samples produced early in 2008 using BluGlass's unique RPCVD technology was shown to be equal to output achieved from some of the best quality, thick layers available from using conventional MOCVD technology.

Modifications to the research tool were made to enhance film growth rates by reducing the distance between the plasma source and the main film growth chamber. This critical development has improved material quality and improved light output. Gas volumes and temperatures have also been reduced, enabling the growth of thicker film including a single well quantum device. Additional changes to the tool resulted in improved quality in film growth rates.

Phase 2 Cleanroom Completion

The construction of the company's Cleanroom was completed during the year by M&W Zander. It is a Class 100k facility that covers 108 sq m and is capable of housing the commercial demonstration tool, and a further 1 or 2 tools. Part of this new facility is of higher Class 1000, intended for device fabrication.

Financial Position

The net assets of the consolidated entity have decreased by $1,815,921 from 30 June 2007 to $23,607,307.
The decrease has largely related from the net costs of operations of $1,789,262 which has been partially offset by proceeds from share issues of $585,554.

The consolidated entity's strong financial position continues to enable Bluglass Limited to continue an aggressive technology commercialisation strategy. Bluglass Limited has invested in expert personnel, strategic infrastructure and a pilot reactor build to secure its long term success.

The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

BLUGLASS

ANNUAL FINANCIAL REPORT 2008

BLUGLASS LIMITED AND CONTROLLED ENTITIES

ABN 20 116 825 793

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED 30 JUNE 2008

CONTENTS

01 : Chairman's Letter 02

02 : Directors' Report 03

03 : Auditor's Independence Declaration 12

04 : Income Statement 13

05 : Balance Sheet 14

06 : Statement of Changes In Equity 15

07 : Cash Flow Statement 16

08 : Notes to the Financial Statements 17

09 : Director's Declaration 40

10 : Independent Auditor's Report 41

11 : Additional Listed Company Information 44

12 : Corporate Governance Statement 46

01 CHAIRMAN'S LETTER

Dear Shareholder,

During this our second year, the BluGlass team has made steady progress on all fronts. We remain on track with the plans and expectations that we reported last year and in 2006 outlined in our initial prospectus. A great demonstration of this was the opening in July of our Sydney headquarters in Silverwater at which we were able to unveil our completed commercial-scale demonstration reactor within Bluglass' own state-of-the-art semiconductor fabrication plant. The engineering and logistical feats behind this are described in the Directors' Report along with other details of our progress.

Our business remains reliant on developing, demonstrating and selling BluGlass's patented approach to depositing gallium nitride (GaN) to produce less costly and possibly more versatile light emitting diodes (LEDs). The world market for LED devices has not diminished from our earlier reports and expectations remain for a US$9 billion market within four years.

Our Managing Directors and team have continued to strengthen our global network in the LED industry. We now have a collection of potential partners and customers that are expected to visit our site once the new commercial-scale reactor has been commissioned to demonstrate the deposition of GaN using our technology.

Furthermore, BluGlass's commercialisation is being fast-tracked with our smaller and more flexible research reactor. This reactor is particularly suited to research purposes and is expected to pave the way for our new technology into the LED industry as well as exploring new applications. With sales of this smaller reactor and on-going technical collaboration, the BluGlass team is expected to expand dramatically the company's reach, impact and ultimate entry into the market. To assist in this sales effort in Asia, we have engaged the first person for our international marketing team.

The company is grateful to the Australian Government for its financial support through the Commercial Ready Grants Program. You will see in our accounts that, as we have reached technical milestones in our contract with the Government, we have earned approximately half of the $5 million that, on a cash-match basis, has been allocated to BluGlass.

The Board was challenged when mid-year, our inaugral CEO David Jordan resigned. We were fortunate when our then Business Development Manager, Giles Bourne, stepped up to the role in the interim. While an executive search identified some excellent candidates, Giles proved himself in the role and was formally appointed as CEO in what has been a seamless transition. We have retained David Jordan's skills and experience as a non-executive director and to provide specific input as a technical consultant.

Given prevailing market conditions in this technology sector, I expect that the Board and our staff will continue to be challenged as we strive for BluGlass to achieve its potential. We are confident that BluGlass has the resources with which to succeed in the future.

Your Board and management look forward to our future growth and development with confidence and enthusiasm.

Michael Taverner
CHAIRMAN

02 DIRECTORS' REPORT

Your directors present their report on the company and its controlled Entity for the financial year ended 30 June 2008.

DIRECTORS

The names of directors in office at any time during or since the end of the year are:
Dr Michael Taverner
Mr Gregory Cornelsen
Mr David Jordan
Mr Chandra Kantamneni
Dr Peter Dodd (resigned 01/02/2008)

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

COMPANY SECRETARY

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

Mr Emmanuel Correia

Mr Correia is an associate of the Institute of Chartered Accountants and holds a Bachelor of Business degree from Curtin University of Technology in Western Australia.

Mr Correia has over 16 years experience in public accounting and corporate advisory. He has extensive experience in the provision of corporate advice to a diverse client base (both public and private companies) in relation to capital raisings, corporate strategy and structuring, prospectus preparation, due diligence enquires and the requirements of ASX and ASIC.

CORPORATE GOVERNANCE STATEMENT

In recognising the need for the highest standard of corporate behaviour and accountability, the directors of Bluglass Limited support and have adhered to the principles of good corporate governance. The company's corporate governance statement is on page 46.

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's web site at www.bluglass.com.au

PRINCIPAL ACTIVITIES

The principal activity of the consolidated entity during the financial year was the commercialisation of novel technology for the manufacture of epitaxially grown gallium nitride on low cost substrates at low temperature.

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

OPERATING RESULTS

The consolidated loss amounted to $2,686,867 (2007: loss of $2,241,150).

DIVIDENDS PAID OR RECOMMENDED

No dividends were declared in 2008 (2007: NIL).

02 DIRECTORS' REPORT (cont.)

REVIEW OF OPERATIONS

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TECHNOLOGY MILESTONES ACHIEVED

Research tool – The third generation research tool installed in the company's new Silverwater premises was modified to achieve a leap forward in the optoelectronic quality. The photo-luminescent output of samples produced early in 2008 using BluGlass's unique RPCVD technology was shown to be equal to output achieved from some of the best quality, thick layers available from using conventional MOCVD technology.

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The directors believe the group is in a strong and stable financial position to expand and grow its current operations.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

The following significant changes in the state of affairs of the parent entity occurred during the financial year:
(i) The pilot RPCVD reactor was assembled in Ireland and subsequently commissioned at Silverwater.
(ii) The pilot demonstration plant was constructed at Silverwater.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

(i) On 16 July 2008 Giles Bourne was appointed Chief Executive Officer. He had been Interim CEO since 1 February 2008.

FUTURE DEVELOPMENTS, PROSPECTS AND BUSINESS STRATEGIES

To further improve the consolidated entity's profit and maximise shareholder wealth, the following developments are intended to be implemented in the near future:

(i) Continue to develop and enhance the technology platform.
(ii) Develop a market for RPCVD Research Reactors.
(iii) Fully implement a commercialisation program to license the Bluglass technology.
(iv) Continue to develop the market for RPCVD Commercial reactor sales.

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

02 DIRECTORS' REPORT (cont.)

ENVIRONMENTAL ISSUES

The BluGlass RPCVD technology uses some materials classified under the Dangerous Goods Act. All materials and consumables are handled in strict compliance with relevant regulatory environmental, health and safety codes, as do all facility emissions. The company has in place strict OHS&E procedures and a zero incident history.

INFORMATION ON DIRECTORS

Dr. Michael Taverner	→	Chairman
Qualifications	→	BAgSci, MAgSci, PhD, MAICD, FAIAST
Interest in Shares and Options	→	287,500 shares, 1,100,000 options
Special Responsibilities	→	Chairperson of the Remuneration Committee, Chairperson of the Nominations Committee, Finance & Audit Committee
Directorships held in other listed entities	→	Jatoil Ltd, Medical Therapies Ltd (resigned 14/02/2008), Biosignal Ltd (resigned 07/03/2007)
Directorships held in other entities	→	None
Mr. Gregory Cornelsen	→	Director
Qualifications	→	BEc
Interest in Shares and Options	→	525,000 shares, 500,000 options
Special Responsibilities	→	Chairperson of the Finance Audit & Risk Committee, Remunerations Committee, Nominations Committee
Directorships held in other listed entities	→	Reco Financial Services Ltd
Directorships held in other entities	→	None
Mr. David Jordan	→	Director
Qualifications	→	BSc, BEE
Interest in Shares and Options	→	6,250 shares, 1,000,000 options
Special Responsibilities	→	Consultant
Directorships held in other listed entities	→	None
Directorships held in other entities	→	Macquarie Valley Pastoral Company P/L, BT Imaging Pty Ltd
Mr. Chandra Kantamneni	→	Director
Qualifications	→	MSC, MS, MBA
Interest in Shares and Options	→	500,000 options
Special Responsibilities	→	Finance & Audit Committee, Remunerations Comittee, Nominations Committee
Directorships held in other listed entities	→	None
Directorships held in other entities	→	Perigrine Australia P/L
Dr. Peter Dodd	→	Director (resigned 01/02/2008)
Qualifications	→	Bcomm, Mcomm, MSc, PhD
Interest in Shares and Options	→	No interest at balance date
Special Responsibilities	→	Chairman of the Finance & Audit Committee, Remunerations Comittee, Nominations Committee
Directorships held in other listed entities	→	None
Directorships held in other entities	→	Centenial Coal P/L, Transgrid, Ascendas-Macquarie Goodman P/L, Fairweather Turner P/L

REMUNERATION REPORT

The information which follows through to the end of the section titled Options granted as remuneration is subject to audit by the external auditor.

This report details the nature and amount of remuneration for the key management personnel of Bluglass Limited.

Remuneration policy

The remuneration policy of Bluglass Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated entity's financial results. The board of Bluglass Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

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

- The remuneration policy, setting the terms and conditions for the executive director and other senior executives, was developed by the remuneration committee and approved by the board aft er seeking professional advice from independent external consultants.
- All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. 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 attract the highest calibre of executives and reward them for performance that results 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.

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, 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 directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate directors at market rates for comparable companies for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive director and reviews his remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required.

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

The board policy is to cap total non-executive fees at $300,000.

02 DIRECTORS' REPORT (cont.)

Performance based remuneration

As part of the executive director and executives 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 directors/ executives to ensure buy-in. The measures are specifically tailored to the areas each director/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, covering 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. 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.

Details of remuneration for year ended 30 June 2008

The remuneration for each key management personnel of the consolidated entity during the year was as follows:

	CASH SALARY $	SUPERANNUATION $	OPTIONS $	BONUS $	TOTAL $	PERFORMANCE RELATED %
DIRECTORS						
Dr Michael Taverner	64,000	5,760	-	-	69,760	-
Mr David Jordan	312,720	23,191	-	-	335,911	-
Mr Gregory Cornelsen	32,000	2,880	-	-	34,880	-
Mr Chandra Kantamneni	32,000	2,880	-	-	34,880	-
Dr Peter Dodd (resigned 1/2/08)	16,000	1,440	-	-	17,440	-
OTHER KEY MANAGEMENT PERSONNEL						
Mr Giles Bourne	173,229	15,591	82,234	21,349	292,403	35
Mr Scott Butcher	147,155	13,244	148,734	19,874	329,007	51
Mr Geoffrey King	186,263	16,764	243,123	41,918	488,068	58
	963,367	81,750	474,091	83,141	1,602,349	

02 DIRECTORS' REPORT (cont.)

Details of remuneration for year ended 30 June 2007

The remuneration for each director and the executive director and key management personnel of the consolidated entity during the year was as follows:

	CASH SALARY $	SUPERANNUATION $	OPTIONS $	BONUS $	TOTAL $	PERFORMANCE RELATED %
DIRECTORS						
Dr Michael Taverner	57,846	5,206	28,089	-	91,141	-
Mr David Jordan	248,765	22,389	42,133	-	313,287	-
Mr Gregory Cornelsen	28,923	2,603	14,044	-	45,570	-
Mr Chandra Kantamneni	28,923	2,603	14,044	-	45,570	-
Dr Peter Dodd	5,333	480	-	-	5,813	-
OTHER KEY MANAGEMENT PERSONNEL						
Mr Scott Butcher	127,435	9,669	27,325	-	164,429	17
Mr Geoffrey King	91,736	8,256	13,663	-	113,655	12
	588,961	51,206	139,298	-	779,465	

Performance income as a proportion of total remuneration

The executive director and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals. The remuneration committee has set these bonuses to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the consolidated entity. The remuneration committee will review the performance bonuses to gauge their effectiveness against achievement of the set goals, and adjust future years' incentives as they see fit, to ensure use of the most cost effective and efficient methods.

Options issued as part of remuneration for the year ended 30 June 2008

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the majority of directors and executives of Bluglass Limited to increase goal congruence between executives, directors and shareholders.

Options granted as remuneration

	OPTIONS VESTED NO.	OPTIONS GRANTED NO.	GRANT DATE	VALUE PER OPTION $	EXERCISE PRICE $	FIRST EXERCISE DATE	LAST EXERCISE DATE
OTHER KEY MANAGEMENT PERSONNEL							
Mr Giles Bourne	50,000	360,274	03/04/08	0.23	0.39	01/01/09	02/04/13
Mr Scott Butcher	-	641,096	03/04/08	0.23	0.39	01/01/09	02/04/13
Mr Geoffrey King	-	1,047,945	03/04/08	0.23	0.39	01/01/09	02/04/13
	50,000	2,049,315					

Options vest over a three year period from the grant date and expire five years after the grant date.
The exercise price is the average of the market closing price for five days prior to and including the grant date.
Performance criteria to determine remuneration is set by the Remuneration Committee.
All options were granted for nil consideration.

02 DIRECTORS' REPORT (cont.)

Employment contracts of directors and senior executives

The employment conditions of the CEO and specified executives are formalised in contracts of employment. Other than the CEO, all executives are permanent employees of Bluglass Limited. Giles Bourne is employed under a fixed two year contract, which commenced on 16/07/2008 and expires on 15/07/2010.

Shares Issued on Exercise of Compensation Options

Nil options were exercised during the year that were granted as compensation in prior periods.

MEETINGS OF DIRECTORS

During the financial year, 13 meetings of directors (including committees 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
Dr Michael Taverner	9	9	3	3	1	1
Mr David Jordan	9	8	-	-	-	-
Mr Gregory Cornelsen	9	9	3	3	1	1
Mr Chandra Kantamneni	9	8	3	2	1	1
Dr Peter Dodd	5	4	2	1	-	-

INDEMNIFYING OFFICERS

The company has paid premiums 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 willful breach of duty in relation to the company. The total premium was $38,500.

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
21/09/2006	31/12/2008	0.20	12,597,230
21/09/2006	31/12/2008	0.20	15,100,000
21/09/2006	30/06/2009	0.20	3,000,000
28/03/2007	31/12/2008	0.20	125,000
29/01/2008	29/01/2010	0.20	175,000
03/04/2008	02/04/2013	0.39	4,293,218
			35,290,448

During the year ended 30 June 2007, 2,927,770 ordinary shares of Bluglass Limited were issued on the exercise of options.

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 for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

NON-AUDIT SERVICES

The board of directors, in accordance with advice from the Finance 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 Finance and Audit 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 APES:110:Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2008:

	$
Taxation services	15,000

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 2008 has been received and can be found on page 12 and forms part of the directors' report.

Signed in accordance with a resolution of the Board of Directors.

DR MICHAEL TAVERNER – DIRECTOR

Dated this 28th day of August 2008

Grant Thornton NSW
ABN 25 034 787 757

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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 Pty Limited for the year ended 30 June 2008, 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 NSW

GRANT THORNTON NSW
Chartered Accountants

N J Bradley
Partner

Sydney, 28 August 2008

04 INCOME STATEMENT FOR YEAR ENDED 30 JUNE 2008

	NOTE	CONSOLIDATED ENTITY		PARENT ENTITY	
		2008	2007	2008	2007
		$	$	$	$
Revenue	2	3,216,128	1,059,826	3,182,236	751,479
Expenses:					
Employee Benefits Expense		(2,302,917)	(1,128,425)	(2,302,443)	(697,908)
Professional Fees		(106,136)	(96,873)	(106,136)	(96,873)
Board and Secretarial		(302,750)	(177,381)	(302,750)	(177,381)
Corporate Compliance & Legal		(122,424)	(210,079)	(121,395)	(210,079)
Consultant Fees		(667,083)	(820,104)	(667,083)	(739,960)
Rent		(201,733)	(118,020)	(201,733)	(118,020)
Travel and Accommodation		(236,347)	(96,480)	(236,347)	(96,480)
Marketing		(212,771)	(135,467)	(212,771)	(135,467)
Research		(635,327)	(188,681)	(635,327)	(188,681)
Depreciation and Amortisation		(659,519)	(70,587)	(659,519)	(69,888)
Other Expenses		(455,988)	(258,879)	(455,823)	(259,325)
Loss before income tax	3	(2,686,867)	(2,241,150)	(2,719,091)	(2,038,583)
Income Tax Expense	4	-	-	-	-
Loss attributable to members		(2,686,867)	(2,241,150)	(2,719,091)	(2,038,583)
Basic loss per share (cents per share)	7	(1.62)	(1.61)		
Diluted loss per share (cents per share)	7	(1.62)	(1.61)		
Dividends per share (cents)		N/A	N/A		

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

05 BALANCE SHEET AS AT 30 JUNE 2008

	NOTE	CONSOLIDATED ENTITY		PARENT ENTITY	
		2008	2007	2008	2007
		$	$	$	$
Current Assets					
Cash and cash equivalents	8	6,043,897	11,676,356	5,998,604	11,672,136
Trade and other receivables	9	271,233	304,966	360,424	302,862
Inventories	10	133,615	-	133,615	-
Other current assets	11	89,495	90,414	89,407	90,325
TOTAL CURRENT ASSETS		6,538,240	12,071,736	6,582,050	12,065,323
Non-Current Assets					
Property, plant and equipment	12	5,703,169	1,931,262	5,701,051	1,929,144
Intangible assets	13	12,130,080	12,130,080	-	-
Financial assets	14	-	-	12,264,805	12,264,805
TOTAL NON-CURRENT ASSETS		17,833,249	14,061,342	17,965,856	14,193,949
TOTAL ASSETS		24,371,489	26,133,078	24,547,906	26,259,272
Current Liabilities					
Trade and other payables	16	658,834	574,693	658,976	561,246
Short-term provisions	17	105,348	135,157	111,280	72,231
TOTAL CURRENT LIABILITIES		764,182	709,850	770,256	633,477
TOTAL LIABILITIES		764,182	709,850	770,256	633,477
NET ASSETS		23,607,307	25,423,228	23,777,650	25,625,795
Equity					
Issued capital	18	27,006,696	26,421,142	27,006,696	26,421,142
Reserves		1,916,820	1,631,428	1,916,820	1,631,428
Retained earnings		(5,316,209)	(2,629,342)	(5,145,866)	(2,426,775)
TOTAL EQUITY		23,607,307	25,423,228	23,777,650	25,625,795

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

06 STATEMENT OF CHANGES IN EQUITY FOR YEAR ENDED 30 JUNE 2008

	NOTE	ISSUED CAPITAL $	RETAINED EARNINGS $	OPTION RESERVE $	TOTAL $
Consolidated Entity					
Balance at 1 July 2006		2,367,876	(388,192)	-	1,979,684
Net income recognised directly in equity		-	-	-	-
Loss attributable to members		-	(2,241,150)	-	(2,241,150)
Total recognised income and expense for the period		-	(2,241,150)	-	(2,241,150)
Shares issued during the year		24,634,199	-	-	24,634,199
Share issue costs		(580,933)	-	-	(580,933)
Stock options issued	19	-	-	1,631,428	1,631,428
Balance at 30 June 2007		26,421,142	(2,629,342)	1,631,428	25,423,228
Net income recognised directly in equity		-	-	-	-
Loss attributable to members		-	(2,686,867)	-	(2,686,867)
Total recognised income and expense for the period		-	(2,686,867)	-	(2,686,867)
Shares issued during the year		585,554	-	-	585,554
Stock options issued	19	-	-	285,392	285,392
Balance at 30 June 2008		27,006,696	(5,316,209)	1,916,820	23,607,307
Parent Entity					
Balance at 1 July 2006		2,367,876	(388,192)	-	1,979,684
Net income recognised directly in equity		-	-	-	-
Loss attributable to members		-	(2,038,583)	-	(2,038,583)
Total recognised income and expense for the period		-	(2,038,583)	-	(2,038,583)
Shares issued during the year		24,634,199	-	-	24,634,199
Share issue costs		(580,933)	-	-	(580,933)
Stock Options Issued		-	-	1,631,428	1,631,428
Balance at 30 June 2007		26,421,142	(2,426,775)	1,631,428	25,625,795
Net income recognised directly in equity		-	-	-	-
Loss attributable to members		-	(2,719,091)	-	(2,719,091)
Total recognised income and expense for the period		-	(2,719,091)	-	(2,719,091)
Shares issued during the year		585,554	-	-	585,554
Stock options issued	19	-	-	285,392	285,392
Balance at 30 June 2008		27,006,696	(5,145,866)	1,916,820	23,777,650

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

07 CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2008

		CONSOLIDATED ENTITY		PARENT ENTITY	
	Note	2008	2007	2008	2007
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from grants		2,601,311	310,546	2,569,151	-
Interest received		588,055	675,163	586,323	686,317
Payments to suppliers and employees		(4,978,628)	(2,827,965)	(4,985,807)	(2,338,468)
Net cash used in operating activities	22	(1,789,262)	(1,842,256)	(1,830,333)	(1,652,151)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(4,428,752)	(2,001,850)	(4,428,752)	(1,999,032)
Cash acquired on purchase of subsidiary	22b	-	197,143	-	-
Net cash used in investing activities		(4,428,752)	(1,804,707)	(4,428,752)	(1,999,032)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		585,554	13,834,199	585,554	13,834,199
Share issue costs		-	(580,933)	-	(580,933)
Net cash provided by financing activities		585,554	13,253,266	585,554	13,253,266
Net (decrease)/increase in cash held		(5,632,460)	9,606,303	(5,673,531)	9,602,083
Cash at beginning of financial year		11,676,357	2,070,053	11,672,135	2,070,053
Cash at end of financial year	8	6,043,897	11,676,356	5,998,604	11,672,136

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

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the consolidated entity of Bluglass Limited and controlled Entity, and Bluglass Limited as an individual parent entity. Bluglass Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Bluglass Limited and its controlled entity, and Bluglass Limited as an individual parent entity complies with Australian Accounting Standards which include Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Accounting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Preparation

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

Reporting Basis and Conventions

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

Accounting Policies

(a) *Principles of Consolidation*

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

A list of controlled entities is contained in Note 15 to the financial statements. All controlled entities have a June financial year-end.

As at reporting date, the assets and liabilities of the controlled entity have been incorporated into the consolidated financial statements as well as their results for the year then ended. No controlled entities have entered or left the group.

All inter-group balances and transactions between entities in the consolidated group, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries are consistent with those adopted by the parent entity.

(b) *Income Tax*

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

Current income tax expense charged to the profit and loss is the tax payable on taxable income calculated using applicable tax rates enacted, or substantially enacted, as at reporting date. 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.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

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

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

Tax consolidation

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

(c) Inventories

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

(d) Plant and Equipment

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

Plant and Equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

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

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

CLASS OF FIXED ASSET	DEPRECIATION RATE
Furniture and Fittings	10%
Plant and equipment	20%
Leasehold improvements	33.33%
Computer hardware & software	33.33%

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

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(e) Leases

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

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

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.

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

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

Financial instruments, incorporating financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

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

Derecognition

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

Loans and receivables

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

Financial liabilities

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

Impairment

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

(g) *Impairment of assets*

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

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

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.

(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.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

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

Intellectual property

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

(i) *Foreign Currency Transactions and Balances*

Functional and presentation currency

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

Transaction and balances

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

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

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

(j) *Employee Benefits*

Provision is made for the company'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. Those cash flows are discounted using market yields of national government 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 Black-Scholes 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 balance sheet.

(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

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

an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

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

(o) Government Grants

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

(p) Comparative Figures

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

(q) Critical accounting estimates and judgments

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

Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions 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.

Key estimates — Share options

The company issued options under the Bluglass Limited prospectus and the employee incentive option scheme. These options are valued at grant date using the Black-Scholes option pricing model. The key inputs to the pricing model are disclosed on Note 23. 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.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 2: REVENUE

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Revenue				
→ interest received	614,817	749,863	613,085	751,479
→ grant revenue	2,600,296	309,963	2,568,136	-
→ sundry income	1,015	-	1,015	-
Total Revenue	3,216,128	1,059,826	3,182,236	751,479
Other Income				
→ Interest received from other persons	614,817	749,863	613,085	751,479
Total interest revenue	614,817	749,863	613,085	751,479

NOTE 3: EXPENSES

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Rental Expense on operating leases				
→ Minimum lease payments	201,733	118,020	201,733	118,020
Expenses directly related to the IPO that were expensed as not directly attributable to the raising of capital:				
→ Printing – Prospectus	-	34,275	-	34,275
→ Legal	-	36,049	-	36,049
→ Consulting	-	187,869	-	187,869
→ Accounting services	-	20,000	-	20,000
→ ASX listing fees	-	48,343	-	48,343
Total IPO related	-	326,536	-	326,536

NOTE 4: INCOME TAX

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
(a) The components of tax expense comprise:				
→ Current tax benefit	-	-	-	-
→ Deferred tax benefit	-	-	-	-

NOTE 4: INCOME TAX (cont.)

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
(b) The prima facie tax on loss before income tax is reconciled to the income tax as follows:				
Prima facie tax payable on loss before income tax at 30% (2007: 30%)				
→ consolidated entity	(806,060)	(672,345)	-	-
→ parent entity	-	-	(815,727)	(611,575)
Add:				
Tax effect of:				
→ IPO related costs (deductible over 5 years)	78,369	78,369	78,369	78,369
→ share options expensed during year	85,618	49,987	85,618	49,987
→ other non-allowable items	43,121	21,329	43,121	9,572
	207,108	149,685	207,108	137,928
Add:				
Income tax benefit not bought to account	598,952	522,660	608,619	473,647
Income tax benefit attributable to the entity	-	-	-	-
Accumulated tax losses not brought to account	1,238,070	639,118	1,198,724	590,105

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Names and positions held of parent entity directors and other key management personnel in office at any time during the financial year are:

KEY MANAGEMENT PERSONNEL	POSITION
Michael Taverner	Chairman – Non-executive
David Jordan	Chief Executive Officer (resigned 30 January 2008)
	Director – Non-executive
Gregory Cornelsen	Director – Non-executive
Chandra Kantamneni	Director – Non-executive
Peter Dodd	Director- Non-executive (resigned 1 February 2008)
Giles Bourne	Chief Executive Officer (appointed 1 February 2008)
Scott Butcher	Chief Technology Officer
Geoff King	Chief Financial Officer

(b) Options Holdings

	BALANCE 1.7.2007	GRANTED AS COMPENSATION	OPTIONS EXERCISED	NET CHANGE OTHER (*)
Michael Taverner	1,100,000	-	-	-
David Jordan	3,000,000	-	-	(2,000,000)
Gregory Cornelsen	500,000	-	-	-
Chandra Kantamneni	500,000	-	-	-
Giles Bourne	-	360,274	-	-
Scott Butcher	50,000	641,096	-	-
Geoff King	25,000	1,047,945	-	-
	5,175,000	2,049,315	-	(2,000,000)

(*) Net change other refers to the cancellation of 2,000,000 options following the early resignation of David Jordan as CEO. These options had been subject to certain performance milestones that had not been met.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 5: DIRECTORS' AND EXECUTIVES' REMUNERATION (cont.)

	BALANCE 30.6.2008	TOTAL VESTED 30.6.2008	TOTAL EXERCISABLE 30.6.2008	TOTAL UNEXERCISABLE 30.6.2008
Michael Taverner	1,100,000	-	-	1,100,000
David Jordan	1,000,000	-	-	1,000,000
Gregory Cornelsen	500,000	-	-	500,000
Chandra Kantamneni	500,000	-	-	500,000
Giles Bourne	360,274	50,000	50,000	310,274
Scott Butcher	691,096	50,000	50,000	641,096
Geoff King	1,072,945	25,000	25,000	1,047,945
	5,224,315	125,000	125,000	5,099,315

(c) Number of Shares held by Key Management Personnel

	BALANCE 1.07.07	RECEIVED AS COMPENSATION	OPTIONS EXERCISED	NET CHANGE OTHER	BALANCE 30.06.08
Michael Taverner	287,500	-	-	-	287,500
David Jordan	6,250	-	-	-	6,250
Gregory Cornelsen	525,000	-	-	-	525,000
	818,750	-	-	-	818,750

NOTE 6: AUDITORS' REMUNERATION

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
Remuneration of the auditor of the parent entity for:				
→ auditing or reviewing the financial report	29,680	69,755	29,680	69,755
→ taxation services	15,000	12,680	15,000	12,680
→ other services	1,000	-	1,000	-
	45,680	82,435	45,680	82,435
→ remuneration of previous auditors auditing or reviewing the financial report	-	12,600	-	12,600
→ due diligence services	-	43,441	-	43,441
		56,041	-	56,041

NOTE 7: EARNINGS PER SHARE

		CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $
(a)	*Basic and diluted loss per share (cents per share)*	(1.62)	(1.61)
(b)	*Reconciliation of Earnings per share to Loss*		
	Loss	(2,686,867)	(2,241,150)
		No.	No.
(c)	*Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS.*	165,646,292	138,985,055
(d)	*Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS.*	165,646,292	138,985,055
(e)	Weighted average number of potential ordinary shares not included in diluted EPS as not dilutive.	27,722,230	28,471,404

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 8: CASH AND CASH EQUIVALENTS

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Cash at bank and in hand	5,905,250	11,572,036	5,859,957	11,567,816
Short-term bank deposits	134,612	102,829	134,612	102,829
Petty cash	4,035	1,491	4,035	1,491
	6,043,897	11,676,356	5,998,604	11,672,136

The effective interest rate on short-term bank deposits was 6.8%; these deposits have an average maturity of less than 14 days.

Reconciliation of cash

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

Cash and cash equivalents	6,043,897	11,676,357	5,998,604	11,672,136
Bank overdrafts	-	-	-	-
	6,043,897	11,676,357	5,998,604	11,672,136

NOTE 9: TRADE AND OTHER RECEIVABLES

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
CURRENT				
Trade receivables	-	74,700	-	64,144
GST receivable	244,471	225,739	244,471	233,173
Amounts receivable from:				
→ wholly-owned subsidiaries	-	-	89,191	1,018
→ travel advances to key management personnel	-	4,527	-	4,527
Interest Accrued	26,762	-	26,762	-
	271,233	304,966	360,424	302,862

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 10: INVENTORIES

	CONSOLIDATED ENTITY 2008 $	2007 $	PARENT ENTITY 2008 $	2007 $
CURRENT				
Raw Materials and Stores (at cost)	133,615	-	133,615	-
	133,615	-	133,615	-

NOTE 11: OTHER ASSETS

	CONSOLIDATED ENTITY 2008 $	2007 $	PARENT ENTITY 2008 $	2007 $
CURRENT				
Prepayments	60,253	72,705	60,253	72,705
Security deposit	11,366	9,142	11,366	9,142
Withholding Tax	6,848	6,848	6,760	6,760
PAYG instalment	-	1,719	-	1,718
Novated Lease	11,028	-	11,028	-
	89,495	90,414	89,407	90,325

NOTE 12: PLANT AND EQUIPMENT

	CONSOLIDATED ENTITY 2008 $	2007 $	PARENT ENTITY 2008 $	2007 $
PLANT AND EQUIPMENT				
Plant and Equipment:				
At cost	3,816,764	1,817,953	3,815,764	1,816,953
Accumulated depreciation	(534,005)	(50,497)	(533,960)	(50,452)
Total Plant and Equipment	3,282,759	1,767,456	3,281,804	1,766,501
Leasehold improvements:				
At cost	2,452,968	52,082	2,452,968	52,082
Accumulated depreciation	(162,462)	(8,738)	(162,462)	(8,738)
Total Leasehold Improvements	2,290,506	43,344	2,290,506	43,344
Furniture and Fittings:				
At cost	105,409	93,314	105,409	93,314
Accumulated depreciation	(10,688)	(4,009)	(10,688)	(4,009)
Total Furniture and Fittings	94,721	89,305	94,721	89,305
Computer Equipment:				
At cost	58,135	38,500	56,318	36,683
Accumulated depreciation	(22,952)	(7,343)	(22,298)	(6,689)
Total Computer Equipment	35,183	31,157	34,020	29,994
Total Property, Plant and Equipment	5,703,169	1,931,262	5,701,051	1,929,144

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year:

	PLANT AND EQUIPMENT $	LEASEHOLD IMPROVEMENTS $	FURNITURE AND FITTINGS $	COMPUTER EQUIPMENT $	TOTAL $
Consolidated Entity:					
Balance at 30 June 2007	1,767,456	43,344	89,305	31,157	1,931,262
Additions	1,998,811	2,400,885	12,095	19,635	4,431,426
Disposals	-	-	-	-	-
Depreciation expense	(483,508)	(153,723)	(6,679)	(15,609)	(659,519)
Balance at 30 June 2008	3,282,759	2,290,506	94,721	35,183	5,703,169
Parent Entity:					
Balance at 30 June 2007	1,766,501	43,344	89,305	29,994	1,929,144
Additions	1,998,811	2,400,885	12,095	19,635	4,431,426
Disposals	-	-	-	-	-
Depreciation expense	(483,508)	(153,723)	(6,679)	(15,609)	(659,519)
Balance at 30 June 2008	3,281,804	2,290,506	94,721	34,020	5,701,051

NOTE 13: INTANGIBLE ASSETS

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
In process research and development:				
Cost	12,130,080	12,130,080	-	-
Accumulated impaired losses	-	-	-	-
Net carrying value	12,130,080	12,130,080	-	-

The company obtained a valuation of the intellectual property from an independent valuer to assist the directors in assessing impairment. The methodology used by the independent valuer to determine the value of the intellectual property was based on a discounted cash flow (DCF) method adjusted for the probability of achieving certain milestones. The DCF was based on management cash flow projections for 5 years and extrapolated for a further 5 years by the valuer based on a 10% growth rate. The DCF has been discounted at between 15% and 18%. The IP was assessed to have a value of between $16m and $18m.

The asset has not been amortised as it is not yet ready for use.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

14: OTHER FINANCIAL ASSETS

		CONSOLIDATED ENTITY		PARENT ENTITY	
		2008 $	2007 $	2008 $	2007 $
Investment in subsidiary	14(a)	-	-	12,264,805	12,264,805
		-	-	12,264,805	12,264,805

(a) *Available-for-sale Financial Assets Comprise:*

Unlisted investments, at cost				
→ Shares in the controlled entity	-	-	12,264,805	12,264,805
Total financial assets	-	-	12,264,805	12,264,805

Financial assets comprise investments in the ordinary share capital of Gallium Enterprises Pty Ltd.

Impairment is tested based on the underlying net asset position. See note 13 for disclosure of impairment testing of intellectual property which represents 99% of the value of the investment in the subsidiary.

NOTE 15: CONTROLLED ENTITY

(a) *Controlled Entity Consolidated*

	COUNTRY OF INCORPORATION	PERCENTAGE OWNED (%)*	
		2008	2007
Parent Entity:			
Bluglass Limited	Australia	-	-
Subsidiaries of Bluglass Limited:			
Gallium Enterprises Pty Ltd	Australia	100%	100%

* Percentage of voting power is in proportion to ownership

(b) *Acquisition of Controlled Entities*

No acquisitions or disposals of controlled entities during the year.

NOTE 16: TRADE AND OTHER PAYABLES

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
CURRENT				
Trade payables	533,580	296,578	533,722	296,578
Sundry payables and accrued expenses	125,254	135,466	125,254	122,019
Amounts payable to other related parties	-	142,649	-	142,649
	658,834	574,693	658,976	561,246

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 17: PROVISIONS

	CONSOLIDATED ENTITY 2008 $	2007 $	PARENT ENTITY 2008 $	2007 $
CURRENT				
Employee entitlements	105,348	135,157	111,280	72,231
Analysis of Total Provisions				
Current	105,348	135,157	111,280	72,231
Non-Current	-	-	-	-
	105,348	135,157	111,280	72,231

NOTE 18: ISSUED CAPITAL

	CONSOLIDATED ENTITY 2008 $	2007 $	PARENT ENTITY 2008 $	2007 $
166,537,966 (2007: 163,610,196) fully paid ordinary shares	27,006,696	26,421,142	27,006,696	26,421,142
	27,006,696	26,421,142	27,006,696	26,421,142

The company has authorised share capital amounting to 166,537,966 ordinary shares.

(a) Ordinary Shares	No.	No.	No.	No.
At the beginning of reporting period	163,610,196	59,404,002	163,610,196	59,404,002
Shares issued:				
→ 21 September 2006	-	53,000,000	-	53,000,000
→ 21 September 2006	-	49,331,194	-	49,331,194
→ 31 January 2007	-	250,000	-	250,000
→ 31March 2007	-	900,000	-	900,000
→ 30 April 2007	-	725,000	-	725,000
→ 31 July 2007	500,000	-	500,000	-
→ 31 August 2007	1,250,000	-	1,250,000	-
→ 31 December 2007	1,000,000	-	1,000,000	-
→ 31 March 2008	100,000	-	100,000	-
→ 30 April 2008	75,000	-	75,000	-
→ 30 June 2008	2,770	-	2,770	-
At reporting date	166,537,966	163,610,196	166,537,966	163,610,196

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

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

(b) 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.

The consolidated entity has no debt.

NOTE 19: RESERVES

Option Reserve

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

NOTE 20: LEASING COMMITMENTS

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
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	196,801	153,600	196,801	153,600
→ Between 12 months and 5 years	135,386	243,200	135,386	243,200
→ greater than 5 years	-	-	-	-
	332,187	396,800	332,187	396,800

The property lease is a non-cancellable lease with a three year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the greater of CPI or 3.5% per annum. An option exists to renew the lease at the end of the three year term for an additional term of three years. The lease does not allow for subletting of any lease areas.

NOTE 21: SEGMENT REPORTING

Primary Reporting — Business Segments

The consolidated entity operates predominantly in one business and geographic segment being the research and manufacture of Gallium Nitrate (GaN) in Australia.

NOTE 22: CASH FLOW INFORMATION

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax				
Loss after income tax	(2,686,867)	(2,241,150)	(2,719,091)	(2,038,583)
Non-cash flows in loss				
→ Depreciation	659,519	70,587	659,519	69,888
→ Share options expensed	285,392	166,623	285,392	166,623
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
→ (Increase)/decrease in trade and term term receivables	47,281	(272,644)	(51,469)	(270,540)
→ (Increase)/decrease in prepayments	(117,420)	(89,077)	(121,432)	(88,988)
→ (Increase)/decrease in inventory	(133,615)	-	(133,615)	-
→ Increase/(decrease) in trade payables and accruals	186,257	388,248	211,314	437,218
→ Increase/(decrease) in provisions	(29,809)	135,157	39,049	72,231
Cash flow from operations	(1,789,262)	(1,842,256)	(1,830,333)	(1,652,151)
(b) Acquisition of Entities				
No acquisitions were made in 2008				
During 2007 100% of the controlled entity Gallium Enterprises was acquired. Details of this transaction are:				
Purchase consideration – issue of 53,000,000 Bluglass Limited shares at 0.20 per share.	-	12,264,805	-	-
Assets and liabilities held at acquisition:				
Cash	-	197,143	-	-
Intellectual property	-	12,130,080	-	-
Payables	-	(62,418)	-	-
Net assets and liabilities held at acquisition date	-	12,264,805	-	-
Goodwill on consolidation	-	-	-	-

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 23: SHARE-BASED PAYMENTS

The following share-based payments existed at 30 June 2008:

On 29 January 2008, 175,000 share options were granted to employees under the Bluglass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.20 each. The options can be exercised on or before 1 March 2010. The options hold no voting or dividend rights and are not transferable. At balance date, zero share options had been exercised.

On 30 January 2008, 2,000,000 share options were cancelled following the resignation of Mr David Jordan as Chief Executive Officer.

On 3 April 2008, 4,293,218 share options were granted to employees under the Bluglass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.39 each. The options vest in three equal annual tranches beginning 1 January 2009, 1 January 2010 and 1 January 2011. Following vesting, the options can be exercised on or before 31 December 2012.

All options granted to key management personnel hold no voting or dividend rights and are not transferable. At balance date, zero share options had been exercised.

	CONSOLIDATED ENTITY			
	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	5,125,000	0.20	-	-
Granted	4,468,218	0.39	5,125,000	0.20
Forfeited	(2,000,000)	0.20	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	7,593,218	0.31	5,125,000	0.20
Exercisable at year-end	300,000	0.20	125,000	0.20

	PARENT ENTITY			
	2008		2007	
	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE $
Outstanding at the beginning of the year	5,125,000	0.20	-	-
Granted	4,468,218	0.39	5,125,000	0.20
Forfeited	(2,000,000)	0.20	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year-end	7,593,218	0.31	5,125,000	0.20
Exercisable at year-end	300,000	0.20	125,000	0.20

There were no director or employee options exercised during the year ended 30 June 2008.

The options outstanding at 30 June 2008 had a weighted average share price of $0.31 and a weighted average remained contractual life of 3.0 years. (Option prices are $0.20 in respect of options outstanding at 30 June 2007).

The weighted average fair value of the options granted during the year was $0.23.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 23: SHARE-BASED PAYMENTS (cont.)

This price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.38
Weighted average life of the options	4.4 years
Underlying average share price	$0.38
Expected share price volatility	66%
Risk free interest rate	6.3%

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

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

Included under employee benefits expense in the income statement relating to share-based payment is $285,392 (2007: $166,623) and relates, in full, to equity-settled share-based payment transactions.

NOTE 24: RELATED PARTY TRANSACTIONS

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated				
Transactions with related parties:				
Other Related Parties				
Purchase of engineering services and hire of laboratory space from Macquarie University. Macquarie University has an 18.3% interest in Bluglass Limited.	108,176	422,945	108,176	422,945
Cash advance to D Jordan for the purpose of overseas business travel.	-	4,527	-	4,527
Consulting fees to director D Jordan.	7,907	-	7,907	-
Loan to Gallium Enterprises Pty Ltd for working capital	.-	-	50,000	-
	116,083	427,472	166,083	427,472

NOTE 25: FINANCIAL RISK MANAGEMENT

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.

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.

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 25: FINANCIAL RISK MANAGEMENT (cont.)

Price Risk

The group has no exposure to commodity price risk.

Liquidity Risk

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

(b) Financial Instruments

(i) *Derivative Financial Instruments*

Derivative financial instruments are not used by the group. The group has no credit risk for derivative financial instruments.

(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:

	FIXED INTEREST RATE MATURING			
	WEIGHTED AVERAGE EFFECTIVE INTEREST RATE		FLOATING INTEREST RATE	
	2008 %	2007 %	2008 $	2007 $
Consolidated Entity				
Financial Assets:				
Cash	6.69	5.97	1,043,897	676,357
Investments	6.82	6.26	5,000,000	11,000,000
Total Financial Assets	6.80	6.23	6,043,897	11,676,357
Parent Entity				
Financial Assets:				
Cash	6.69	5.97	998,604	672,136
Investments	6.82	6.26	5,000,000	11,000,000
Total Financial Assets	6.80	6.23	5,998,604	11,672,136

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 6 months.

(iv) *Net Fair Values*

All investments at 30 June 2008 have maturities of less than 14 days and carrying value represents net fair value.

(v) *Sensitivity analysis*

The consolidated entity has no projected exposure to foreign currency risk or price risk and no material projected exposure to interest rate risk.

NOTE 26: CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards, which have been issued or amended, are applicable to the company but are not yet effective and hence have not been adopted in the preparation of the financial statements at reporting date. Application of these standards has been considered and no significant impact is expected on any of the amounts recognised or disclosed in the financial statements.

AASB AMENDMENT	STANDARDS AFFECTED		OUTLINE OF AMENDMENT	APPLICATION DATE OF THE STANDARD	APPLICATION DATE FOR THE ENTITY
AASB 2008-1	AASB 2	Share based payments: Vesting conditions and cancellations.	Clarifying that vesting conditions are service conditions and performance conditions only, and that other features of share-based payments are not vesting conditions. Cancellations, whether by the entity or by other parties, should be accounted for consistently. There will be no direct impact as the vesting conditions of the Employee Incentive Scheme are service and performance based.	30.06.10	30.06.10
AASB 2007-3	Various	AASB 2007-3 consequentially amends a number of standards arising from the issue of AASB 8. These amendments result from changing the name of the segment reporting standard to AASB8.	AASB 2007-3 is a disclosure standard and therefore has no impact on the entity's reported position or performance.	31.12.09	31.12..09
AASB 2007-6	Various	The revision of AASB123 necessitates consequential amendments to a number of existing standards. The amendments principally remove references to expensing borrowing costs on qualifying assets, as AASB 123 was revised to require such borrowing costs to be capitalised.	As the entity does no have borrowings associated with qualifying assets, these amendments are not expected tp have any impact on the entity's financial report.	31.12.09	31.12.09

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 26: CHANGE IN ACCOUNTING POLICY (cont.)

AASB AMENDMENT	STANDARDS AFFECTED		OUTLINE OF AMENDMENT	APPLICATION DATE OF THE STANDARD	APPLICATION DATE FOR THE ENTITY
AASB 2008-3	Various	AASB 2008-3 was issued after the AASB revised AASB 3 and AASB 127, as consequential amendments were necessary to other Australian Accounting Standards.	As the entity has not been a party to change in business combination during the year, this standard is not expected to have any impact on the entity's financial report. As the transitional provisions of AASB 127 provide that the changes to the recognition and measurement criteria within AASB127 resulting from this revision do not apply retrospectively to business combinations affected prior to the amendments being adopted, this standard is not expected to have any impact on the entity's financial report.	30.06.10	30.06.10
AASB 3	AASB 3	AASB 3 (March 2008) amends how entities account for business combinations and changes in ownership interests in subsidiaries. Many changes have been made to this standard affecting acquisition related costs, step acquisitions, measurement of goodwill and contingent considerations. AASB 3 also replaces the term "Minority Interest" with "Non-Controlling Interest".	As the entity has not been a party to change in business combination during the year, this standard is not expected to have any impact on the entity's financial report.	30.06.10	30.06.10

NOTE 26: CHANGE IN ACCOUNTING POLICY (cont.)

AASB AMENDMENT	STANDARDS AFFECTED		OUTLINE OF AMENDMENT	APPLICATION DATE OF THE STANDARD	APPLICATION DATE FOR THE ENTITY
AASB 8	AASB 114	AASB 8 supersedes AASB 114 (September 2005). AASB 8 has a different scope of application to AASB 114; it is applicable only to listed entities and those in the process of listing and requires that segment information be disclosed using the management approach. This may result in a different set of segments being identified than those previously disclosed under AASB 114.	AASB 8 is a disclosure standard therefore has no impact on the entity's reported position and performance. The new standard will however result in changes to operating segments disclosures within the financial report or the removal of the segment note for certain entities.	31.12.09	31.12.09

08 NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2008 (cont.)

NOTE 26: CHANGE IN ACCOUNTING POLICY (cont.)

AASB AMENDMENT	STANDARDS AFFECTED		OUTLINE OF AMENDMENT	APPLICATION DATE OF THE STANDARD	APPLICATION DATE FOR THE ENTITY
AASB 101	AASB 101	The main changes are to require that an entity must: Present all non-owner changes in equity ('comprehensive income') either in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Present an additional statement of financial position (balance sheet) as at the beginning of the earliest comparative period when the entity applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements. Disclose income tax relating to each components of other comprehensive income. Disclose reclassification adjustments relating to components of other comprehensive income.	The changes to AASB 101 do not effect recognition or measurement criteria, therefore the changes are not expected to have any impact on the entity's reported financial position.	31.12.09	31.12.09
AASB 123	AASB 123	AASB 123 (June 2007) incorporates amendments removing the option to immediately expense borrowing costs directly attributable to the acquisition, construction or production of the qualifying asset.	As the entity does not have borrowings associated with qualifying assets, these amendments are not expected to have any impact on the entity's financial report.	31.12.09	31.12.09

NOTE 27: CONTINGENT LIABILITIES

Contingent liabilities include:

The company's obligations at the end of the lease for 74 Asquith Street, Silverwater, are to remove any alterations and additions made to the premises by the company. At this time the company is unable to establish the amount of the liability and therefore a make good provision has not been booked in the financial statements.

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

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

NOTE 29: EVENTS AFTER BALANCE SHEET DATE

No significant events have occurred after balance sheet date.

The financial report has been authorised for issue on 28 August 2008 by the Board of Directors.

09 DIRECTORS' DECLARATION

THE DIRECTORS OF THE COMPANY DECLARE THAT:

1. the financial statements and notes, as set out on pages 13 to 39, are in accordance with the Corporations Act 2001 and:

   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2008 and of the performance for the year ended on that date of the company and consolidated entity;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:

   (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

3. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

   At the date of this declaration, there are reasonable grounds to believe that the companies which are party to this deed of cross guarantee will be able to meet any obligations or liabilities to which they are, or may become subject to, by virtue of the deed.

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

Director – Michael Taverner
Dated this 28th day of August 2008

Director – Gregory Cornelsen
Dated this 28th day of August 2008

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BLUGLASS LIMITED

Report on the Financial Report

We have audited the accompanying financial report of BluGlass Limited and its controlled entity (the consolidated entity) which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BLUGLASS LIMITED (cont)

Report on the Financial Report (cont)

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's Opinion

In our opinion:

a the financial report of BluGlass Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

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

b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF BLUGLASS LIMITED (cont)

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 7 to 10 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of BluGlass Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON NSW
Chartered Accountants

N J Bradley
Partner

Sydney, 28 August 2008

11 ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

1. SHAREHOLDING

a. Distribution of Shareholders	HOLDERS	ORDINARY SHARES	% OF ISSUED CAPITAL
1 – 1,000	144	119,883	0.07
1,001 – 5,000	899	2,718,396	1.63
5,001 – 10,000	596	4,990,591	3.00
10,001 – 100,000	1,057	35,069,634	21.06
100,001 – and over	225	123,639,462	74.24
	2,921	166,537,966	100.00

b. The number of shareholdings held in less than marketable parcels is nil.

c. The names of substantial shareholders in the company register as at 30 June 2007 are:

SHAREHOLDER	ORDINARY SHARES	% HELD OF ISSUED ORDINARY CAPITAL
Access Macquarie Ltd	30,000,000	18.01
ANZ Nom Ltd	5,795,648	3.48
Merrill Lynch Aust Nom PL	4,049,865	2.43
CS Fourth Nom PL	3,680,000	2.21
Macquarie University	3,028,856	1.82
Canemoon Inv PL	2,305,000	1.38
Armelek PL	2,215,000	1.33

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

→ each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

11 ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont.)

e. 20 Largest Shareholders – Ordinary Shares

NAME		NUMBER OF FULLY PAID SHARES HELD	% HELD OF ISSUED ORDINARY CAPITAL
1.	Access Macquarie Ltd	30,000,000	18.01
2.	ANZ Nom Ltd	5,795,648	3.48
3.	Merrill Lynch Aust Nom PL	4,049,865	2.43
4.	CS Fourth Nom PL	3,680,000	2.21
5.	Macquarie University	3,028,856	1.82
6.	Canemoon Inv PL	2,305,000	1.38
7.	Armelek PL	2,215,000	1.33
8.	Camuglia Joseph Charles	1,872,500	1.12
9.	Talrind PL	1,554,000	0.93
10.	Escay Inv PL	1,423,055	0.85
11.	Bridgesun PL	1,380,000	0.83
12.	Jackson Peter Murray	1,350,000	0.81
13.	National Nom Ltd	1,259,898	0.76
14.	Schumacher Mark Scott	1,254,265	0.75
15.	Windsor Offshore Svcs PL	1,250,000	0.75
16.	Crimmins Anthony Stephen	1,125,000	0.68
17.	Bannister Craig William	1,101,950	0.66
18.	Pan Aust Nom PL	1,051,000	0.63
19.	Jondang Inv PL	1,000,000	0.60
20.	Feta Nom PL	990,359	0.59
		67,686,396	40.62

2. The company Secretary is Mr Emmanuel Correia.

3. The address of the principal registered office in Australia is:
   74 Asquith Street, Silverwater NSW 2128

4. Registers of securities are held at the following address;
   770 Canning Highway, Applecross WA 6153

5. Stock Exchange Listing
   Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange.

6. Unquoted Securities
   A total of 35,290,448 options are on issue. 27,597,230 are on issue to ordinary shareholders. 3,100,000 are on issue to directors and 4,593,218 are on issue under the Bluglass Limited Employee Incentive Scheme.

12 CORPORATE GOVERNANCE STATEMENT 30 JUNE 2008

The Board of Directors of Bluglass Limited is responsible for the corporate governance of the Company. The board guides and monitors the business and affairs of Bluglass Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. In considering the issue of corporate governance the board are cognisant of the size of its operations and the fact that the board consists presently of only four members, all being Non Executive Directors.

COMPOSITION OF THE BOARD

The composition of the board is determined in accordance with the following principles and guidelines:

- the board should comprise directors with an appropriate range of qualifications and expertise; and
- the board shall meet at least every second month and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

The directors in office at the date of this statement and their respective terms in office are as follows:

NAME	POSITION	TERM IN OFFICE
Michael Taverner	Non-executive Chairman	28 Months
David Jordan	Executive Director	26 Months
Greg Cornelsen	Non-executive Director	26 Months
Chandra Kantamneni	Non-executive Director	26 Months

Please refer to page 6 of the 2008 Annual Financial Report for the relevant skills and experience of each of these directors.

BOARD RESPONSIBILITIES

As the board acts on behalf of the shareholders and is accountable to the shareholders, the board seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. In addition, the board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

CORPORATE GOVERNANCE – BEST PRACTICE RECOMMENDATIONS

In accordance with the ASX Corporate Governance Council's best practice recommendations, 1st Edition, the Corporate Governance Statement must now contain specific information, and also report on the company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted, together with the reasons why they have not been adopted. Bluglass Limited's corporate governance principles and policies are therefore structured with reference to the Corporate Governance Council's best practice recommendations, which are as follows:

(i) Lay solid foundations for management and oversight;
(ii) Structure the Board to add value;
(iii) Promote ethical and responsible decision making;
(iv) Safeguard integrity in financial reporting;
(v) Make timely and balanced disclosure;
(vi) Respect the rights of shareholders;
(vii) Recognise and manage risk;
(viii) Encourage enhanced performance;
(ix) Remunerate fairly and responsibly;
(x) Recognise the legitimate interests of stakeholders.

12 CORPORATE GOVERNANCE STATEMENT 30 JUNE 2008 (cont.)

Bluglass Limited's corporate governance practices were in place for the year ending 30th June 2008. As set out below, with the exception of the departures from the ASXCGC's recommendations in relation to the board performance evaluation, the corporate governance practices of Bluglass Limited were compliant with the Council's best practice recommendations during the year.

NOMINATION COMMITTEE

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 2.4 recommends the Board should establish a nomination committee.

At the beginning of the financial year and in line with the expansion of the Company's board and its level of activity, the Board established a Nomination committee to assist the board in fulfilling its responsibilities relating to:

- → assessment, nomination and recruitment of potential board members;
- → recommendations of the appointment and removal of members of the Board;
- → review of board succession plans: and
- → the evaluation of the board's performance.

REMUNERATION COMMITTEE

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 9.2 recommends the Board should establish a remuneration committee.

At the beginning of the financial and in line with the expansion of the Company's board and its level of activity, the Board has established a Remuneration committee to assist the board in fulfilling its responsibilities relating to all aspects of executive and non executive remuneration, including the design and implementation of all incentive option schemes.

BOARD PERFORMANCE EVALUATION

ASX Corporate Governance Council ("ASXCGC") best practice recommendation 8.1 requires the disclosure of the process for performance evaluation of the board, its committees and individual directors, and key executives. Given the size of the Bluglass Limited Board and the level of activity of the Company during the year, the Board does not currently have a formal process for the evaluation of individual Directors and considered the implementation of one during the year as impractical. During the year, the Directors did consider, on an ongoing basis, the overall performance of the Board in context of the Company meeting and exceeding its stated objectives and the trading price of its shares on the ASX.

ANNUAL FINANCIAL REPORT 2008

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