Appendix 4E – Preliminary Final Report

BLUGLASS LIMITED

ACN	Full Year Ended
116825793	**30 June 2009**
	Corresponding period was the twelve months ended 30 June 2008

Results for announcement to the market

RESULTS

		%		$A
Revenues from ordinary activities	Down	(43)	to	1,845,023
Profit/(Loss) from ordinary activities after tax attributable to members	Down	(214)	to	(8,443,280)
Profit/(Loss) for the period attributable to members	Down	(214)	to	(8,443,280)

EPS

Earnings per Security (cents per share)	30 Jun 2009	30 Jun 2008
Basic loss per share (cents per share)	(5.06) cents	(1.62) cents
Diluted loss per share (cents per share)	(5.06) cents	(1.62) cents

Net Tangible Asset Backing

	30 Jun 2009	30 Jun 2008
Per Ordinary Security (cents per share)	4.37 cents	6.89 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 preliminary final report is in the process of being audited. No matters have arisen which would result in a dispute of qualification.

Review of Operations

Operating Results

The consolidated loss amounted to $8,443,280 (2008: loss of $2,686,867) and represented a loss per share of 5.06 cents.

Of the above loss, non-cash expenses including depreciation, impairment of IP and employee option expense amounted to $5,735,685.

Cash used in operations and investment in capital equipment amounted to $3,898,979, (2008: $6,218,014).

Cash required for operational expenses was $392,656 per month on average, (2008: $414,886).

Investment in research and development under the Commercial Ready Grant guidelines amounted to $4,099,521.

At June 30 2009, BluGlass employed 14 staff and 4 non-executive directors.

Technology Update

We consider that the core technology underpins all current developments and that future sales or licenses will be a consequence of exploitation of the core technology. None of the initial IP has been discarded or rendered obsolete and no specific items have been diminished in their importance to the commercialisation programme.

During the year, advances have been made effectively enhancing the core technology. In particular considerable effort is being directed to the research and development of photovoltaic cells based on the RPCVD technology and that other improvements have been made to the method of deposition resulting in the filling of two additional patentswith a further patent being prepared for filling. Photovoltaics was cited in the initial manufacturing technology patent as a potential use for the technology although, at the time of acquisition, research had not been conducted in the field. These new patent applications cover new inventions by definition and seek to provide further layers of protection.

As at 30 June 2009, National Phase applications corresponding to PCT/AU2003/000598 remain pending, other than South Africa which was granted prior to the acquisition date of the technology. The US application was split into two and one has been granted while the other remains pending. The granted US patent largely covers the process claims.

National Phase applications for PCT/AU2005/001483 have been made in Australia, Brazil, Canada, China, Europe, India, Japan, South Korea, the Russian Federation, Singapore, USA and South Africa. A convention patent application was lodged in Malaysia on 27 March 2007.

As at June 2008, BluGlass had established co-operative arrangements with M+W Zander for assistance in the design and fabrication of the pilot plant and with Saint Gobain Recherche to co-develop specifically engineered substrates for BluGlass's GaN LEDs and devices.

In a collaborative program established and supported by the Australian Research Council (ARC) as part of a Linkage program, ANU, Maquarie University and BluGlass will work to better understand the behaviour of plasma in the BluGlass RPCVD process. With ANU investigating the behaviour of RF plasma sources, and MQ invesitigating the use of microwave plasma sources, BluGlass will continue to improve its processes for growth of GaN using RPCVD. Funding for the program was announced in January 2009 and this will continue until 2011. BluGlass has committed $200,000 to this collaboration over the next two years.

As part of an additional ARC Linkage grant awarded to in March 2009, the University of Technology Sydney will further advance BluGlass technology in a study of the activation of p-type and carrier concentration levels by electron-beam radiation. This project will continue until 2011. BluGlass has committed $100,000 to this collaboration over the next two years

In January 2009, the Company announced that it had signed a sales and distribution agreement with ITOCHU Plastics Inc., a wholly owned subsidiary of one of Japan's oldest and largest trading companies, Tokyo-based Itochu Corporation. ITOCHU Plastics receives soles rights to market the LED-manufacturing technology in Japan.

In June 2009, BluGlass signed an Exclusive Sales and Marketing License Agreement with BLK Co., Ltd (BLK) of Korea. BluGlass has granted BLK an exclusive license of its RPCVD technology in the Korean marketplace for an initial term of two years. The agreement also provides for the acquisition of a BLG-300 deposition tool and BLK plans to establish an RPCVD pilot manufacturing plant in Gwangju Technology Park, the centre of the LED industry in Korea. The company intends to produce GaN based LEDs on the BluGlass technology to gain access to the major LED manufacturers of Korea. The BLG300 is a production volume, fully configurable deposition system which nominally allows up to 22 x 2" wafers to be produced in a single growth run. At the date of this report, BLK has not formally placed the BLG300 order and negotiations are continuing.

BluGlass has also negotiated with BLK to establish a Joint Development Agreement where BLK will participate in the final optimisation of the RPCVD technology to advance its speed to the mainstream market.

BLK is a newly established LED company formed in 2008 by CNT International to accelerate the commercialisation of BluGlass's unique technology in the rapidly expanding Korean marketplace.

The Company is also intending to expand the market potential of its technology into the solar industry through the development of indium gallium nitride (InGaN) thin films. Cells based on InGaN have the ability to convert almost the full spectrum of sunlight, from infrared, visible and ultraviolet radiation, to electrical current. This results in far greater efficiency of light conversion than other solar cell technologies.

Commercialisation and Business Strategy Update

BluGlass revised its Business Plan, including commercialisation strategy and revenue forecasts, in 2009. The Business Plan 2009 describes its strategy for developing its business and commercialising its technology as:

ÅFurther developing the technology to fully demonstrate its potential;

ÅFurther developing relationships and strategic alliances with current market players; and

ÅBuilding a pilot manufacturing plant to fabricate GaN material and devices, demonstrate the technology and facilitate licensing.

The Companyôs licensing and manufacturing plan is to generate income from:

ÅThe GaN deposition technology itself, which can be licensed directly to manufacturers of GaN devices and deposition equipment;

ÅGaN wafers fabricated on the companyôs pilot manufacturing plant and sold to device manufactures; and

ÅUnpackaged GaN devices such as LEDs and LDs fabricated from GaN wafers and

on-sold for packaging and product integration.

BluGlass intends to offer its technology to the market through licensing deals with key industry players via a number of strategic partnerships. These partners will access the RPCVD manufacturing tool through BluGlass.

BluGlass plans to generate revenues from both its LED and solar businesses through:

ÅSale and licensing of depositional equipment incorporating the companyôs RPCVD process

ÅRoyalties from the production of wafers by equipment licensees

ÅSale of specialised engineered products such as in-situ measurement tools to licensees, and

ÅSale of manufactured devices such as high brightness LEDs and high efficiency concentrator solar cells

The strategy remains essentially unchanged except that there is a greater emphasis on in house manufacturing of wafers for sale to LED producers. A consequence of this is greater future investment of production machinery with potential positive cash flow impacts.

Markets and Competition Update

In April 2008, industry analysts Strategies Unlimited reported its prediction that, ñThe LED industry is emerging from a slow growth phase, and that the total market size in 2012 will exceed US$11 billion. The market for packaged high-brightness LEDs is set to grow by 12% in 2008.ò1 The report stated the analystôs findings that, ñThe market grew by 9.5% in 2007 to reach US$4.6 billion, somewhat higher than the 6% growth seen in 2005 and 2006. In the next five years, further acceleration in growth is expected as applications outside the mobile phone market come to the fore, principally LED backlighting for LCDs, and of course solid-state illumination. Overall, a compound annual growth rate (ñCAGRò) of 20% in the next five years, with a total market of US$11.4 billion in 2012.ò

Cost projections presented in the BluGlass Business Plan 2009 and used in our analysis derive from an independent cost study commissioned by BluGlass and conducted over time by a number of reputable industry consultants including Wright Williams and Kelly (WWK), Strategies Unlimited and Yole Développement to establish the following estimates:

ÅThe present market for HB-LED wafers is approximately 7.2 million wafers, or 32 billion devices, and is expected to grow at a compound annual growth rate (CAGR) of 16.3% over the next three years.

ÅThe estimated average cost of a high brightness LED wafer is approximately US$110 for the lowest-cost 2-inch wafer, based on work undertaken by Strategies Unlimited.

ÅAt the wafer level, the estimated cost of BluGlassôprocess, based on the Strategies Unlimited study, is approximately US$87 per wafer produced.

ÅThe resultant saving established by WWK is approximately 21% at the epi-wafer level and 6% when the wafer is further processed into devices.

We believe that BluGlass have every reason to remain confident about the prospects for the companyôs technology.

Value of the Technology

Gallium Enterprises, at the time of its acquisition, was engaged in R&D of a novel process for the deposition of gallium nitride (ñGaNò) layers onto low cost substrates for use in light emitting diodes (ñLEDòs) and other applications. Its assets were Intellectual Property, Research and Development (ñIPR&Dò), including patent applications, and it had no products or fully developed intellectual property (ñIPò). At the time of the acquisition, the directors of BluGlass were of the view that it was not possible to assess the value of the patents and other intangible assets and, as a consequence, accorded the difference between the purchase price and Gallium Enterpriseøs net tangible assets to goodwill.

The RPCVD technology offers potential substantial competitive advantages over current commercial processes, giving the company a potential edge in current markets and opening up opportunities for new applications and end-uses.

At the time it acquired Gallium Enterprises, BluGlass had no IP of its own of relevance to the GaN project. It is therefore reasonable to assume that the value of the IP owned by Gallium Enterprises at the date of acquisition was solely derived from the acquisition of Gallium Enterprises and that any IP owned currently by BluGlass is the sum of the acquired IP, less impairment, and subsequent enhancements resulting from R&D undertaken by the combined entity since the acquisition.

Our June 2008 analysis proposed that the core technology had not diminished in value. It was our view at the time that a lack of depreciation was not unexpected as the patents had advanced towards granting while the residual patent life still exceeded expected product life, the market for potential products continued to grow, and expected time frames to commercialisation had not changed significantly since the earlier analysis.

Since 2008, patents have progressed and one has achieved granting in the USA (PCT/AU2003/000598, granted 30 June 2009 as US Patent No. 7,553,368). Technology development has also progressed with delays to market entry date but there have been no identifiable setbacks in its technical utility and commercial potential. The Company has also entered into a number of marketing and licence agreements. A delay to revenues which were initially anticipated for the 2008/09 year, however, has had an adverse effect on expected cash flows and the Company now considers that greater capital investment is necessary in order to achieve operational performance targets. Accordingly, in light of global trends where technology asset values have decreased over the last 12 months and the delay experienced in attaining projected operational targets, a reduction in value of the Companyøs IP is a prudent step.

Based on work undertaken by our independent valuation expert, Directors have resolved to write down the carrying value of the intangible asset by 28%, down to $8,695,000.

Financial Position

The net assets of the consolidated entity have decreased by $7,607,228 from 30 June 2008 to $16,000,079.

The decrease has largely related from the following factors:

ð Net costs of operations $2,866,846 which has been partially offset by proceeds from share issues of $30,000.

ð The Impairment of the IP which has decreased by $3,435,080 from 30 June 2008 to $8,695,000.

The consolidated entityøs financial position continues to enable Bluglass Limited to continue a very focused technical development and commercialisation strategy. Bluglass Limited has invested in expert personnel, strategic infrastructure and a pilot reactor build to secure its long term success.

In July 2009, the company completed a successful equity placement to raise $4,247,356, before costs.

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

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Revenue	2	1,845,023	3,216,128	1,843,062	3,182,236
Employee benefits expense		(2,592,227)	(2,302,917)	(2,592,227)	(2,302,443)
Professional fees		(46,800)	(106,136)	(46,800)	(106,136)
Board and Secretarial fees		(259,306)	(302,750)	(259,306)	(302,750)
Corporate Compliance & Legal expense		(129,421)	(122,424)	(129,209)	(121,395)
Consultant fees		(545,112)	(667,083)	(545,112)	(667,083)
Rent expense		(208,233)	(201,733)	(208,233)	(201,733)
Travel and accommodation expense		(187,871)	(236,347)	(187,871)	(236,347)
Marketing expense		(188,274)	(212,771)	(188,274)	(212,771)
Research expense		(507,945)	(635,327)	(507,945)	(635,327)
Depreciation and amortisation expense		(1,582,053)	(659,519)	(1,580,890)	(659,519)
Impairment expense		(3,435,080)	-	(3,435,080)	-
Other expenses		(605,981)	(455,988)	(605,801)	(455,823)
Loss before income tax	3	**(8,443,280)**	**(2,686,867)**	**(8,443,686)**	**(2,719,091)**
Income tax expense	4	-	-	-	-
Loss attributable to members		**(8,443,280)**	**(2,686,867)**	**(8,443,686)**	**(2,719,091)**
Basic loss per share (cents per share)	7	(5.06)	(1.62)		
Diluted loss per share (cents per share)	7	(5.06)	(1.62)		
Dividends per share (cents)		N/A	N/A		

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

BALANCE SHEET AS AT 30 JUNE 2009

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Current Assets					
Cash and cash equivalents	8	2,174,918	6,043,897	2,127,969	5,998,604
Trade and other receivables	9	-	271,233	89,191	360,424
Inventories	10	156,397	133,615	156,397	133,615
Other current assets	11	219,192	89,495	219,190	89,407
TOTAL CURRENT ASSETS		**2,550,507**	**6,538,240**	**2,592,747**	**6,582,050**
Non-Current Assets					
Property, plant and equipment	12	5,270,421	5,703,169	5,269,466	5,701,051
Intangible assets	13	8,695,000	12,130,080	-	-
Financial assets	14	-	-	8,829,725	12,264,805
TOTAL NON-CURRENT ASSETS		**13,965,421**	**17,833,249**	**14,099,191**	**17,965,856**
TOTAL ASSETS		**16,515,928**	**24,371,489**	**16,691,938**	**24,547,906**
Current Liabilities					
Trade and other payables	16	249,921	658,834	250,062	658,976
Short-term provisions	17	124,789	105,348	130,721	111,280
TOTAL CURRENT LIABILITIES		**374,710**	**764,182**	**380,783**	**770,256**
Non Current Liabilities					
Long-term provisions		141,139	-	141,139	-
NON-CURRENT LIABILITIES		**141,139**	**-**	**141,139**	**-**
TOTAL LIABILITIES		**515,849**	**764,182**	**521,924**	**770,256**
NET ASSETS		**16,000,079**	**23,607,307**	**16,170,016**	**23,777,650**
Equity					
Issued capital	18	27,124,196	27,006,696	27,124,196	27,006,696
Reserves	19	2,635,372	1,916,820	2,635,372	1,916,820
Accumulated Losses		(13,759,489)	(5,316,209)	(13,589,552)	(5,145,866)
TOTAL EQUITY		**16,000,079**	**23,607,307**	**16,170,016**	**23,777,650**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009

	Issued Capital	Accumulated Losses	Option Reserve	Total
	$	$	$	$
Consolidated Entity				
Balance at 1 July 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	-	-	285,392	285,392
Balance at 30 June 2008	27,006,696	(5,316,209)	1,916,820	23,607,307
Net income recognised directly in equity	-	-	-	-
Loss attributable to members	-	(8,443,280)	-	(8,443,280)
Total recognised income and expense for the period	-	(8,443,280)	-	(8,443,280)
Shares issued during the year	117,500	-	-	117,500
Stock options issued	-	-	718,552	718,552
Balance at 30 June 2009	27,124,196	(13,759,489)	2,635,372	16,000,079
Parent Entity				
Balance at 1 July 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	-	-	285,392	285,392
Balance at 30 June 2008	27,006,696	(5,145,866)	1,916,820	23,777,650
Net income recognised directly in equity	-	-	-	-
Loss attributable to members	-	(8,443,686)	-	(8,443,686)
Total recognised income and expense for the period	-	(8,443,686)	-	(8,443,686)
Shares issued during the year	117,500	-	-	117,500
Stock options issued	-	-	718,552	718,552
Balance at 30 June 2009	27,124,196	(13,589,552)	2,635,372	16,170,016

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

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from grants		1,648,361	2,601,311	1,648,361	2,569,151
Interest received		196,662	588,055	194,702	586,323
Payments to suppliers and employees		(4,711,869)	(4,978,628)	(4,711,565)	(4,985,807)
Net cash used in operating activities	**22**	**(2,866,846)**	**(1,789,262)**	**(2,868,502)**	**(1,830,333)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment		(1,032,133)	(4,428,752)	(1,032,133)	(4,428,752)
Net cash used in investing activities		**(1,032,133)**	**(4,428,752)**	**(1,032,133)**	**(4,428,752)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		30,000	585,554	30,000	585,554
Net cash provided by financing activities		**30,000**	**585,554**	**30,000**	**585,554**
Net decrease in cash held		(3,868,979)	(5,632,460)	(3,870,635)	(5,673,531)
Cash at beginning of financial year		6,043,897	11,676,357	5,998,604	11,672,135
Cash at end of financial year	**8**	**2,174,918**	**6,043,897**	**2,127,969**	**5,998,604**

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

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 entities, 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 entities, 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.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(b) **Income Tax (Cont.)**

Tax consolidation

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

(c) **Inventories**

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

(d) **Plant and Equipment**

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

Plant and equipment

Plant and equipment are measured on the cost basis.

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

Depreciation

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

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

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

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

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

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

(e) **Leases**

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(e) **Leases (Cont.)**

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

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

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

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

(f) **Financial Instruments**

Recognition and measurement

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

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

Derecognition

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

Loans and receivables

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

Financial liabilities

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

Impairment

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(h) **Intangibles**

Patents and trademarks

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

Research and development

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

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

Intellectual property

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

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

Functional and presentation currency

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

Transaction and balances

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

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

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

(j) **Employee Benefits**

Provision is made for the group's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(k) **Provisions**

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

(l) **Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the 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 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. See Note 13 Intangible assets for further disclosure of impairment.

Key estimates — Share options

The company issued options under the Bluglass Limited prospectus and the employee incentive option scheme. 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

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

AASB 3: Business Combinations, AASB 127: Consolidated and Separate Financial Statements, AASB 2008-3: Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1,2,4,5,7,101,107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107] (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2008-7: Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate [AASB 1, AASB 118, AASB 121, AASB 127 & AASB 136] (applicable for annual reporting periods commencing from 1 January 2009). These standards are applicable prospectively and so will only affect relevant transactions and consolidations occurring from the date of application. In this regard, its impact on the Group will be unable to be determined. The following changes to accounting requirements are included:

- acquisition costs incurred in a business combination will no longer be recognised in goodwill but will be expensed unless the cost relates to issuing debt or equity securities;
- contingent consideration will be measured at fair value at the acquisition date and may only be provisionally accounted for during a period of 12 months after acquisition;
- a gain or loss of control will require the previous ownership interests to be remeasured to their fair value;
- there shall be no gain or loss from transactions affecting a parent's ownership interest of a subsidiary with all transactions required to be accounted for through equity (this will not represent a change to the Group's policy);
- dividends declared out of pre-acquisition profits will not be deducted from the cost of an investment but will be recognised as income;
- impairment of investments in subsidiaries, joint ventures and associates shall be considered when a dividend is paid by the respective investee; and
- where there is, in substance, no change to Group interests, parent entities inserted above existing groups shall measure the cost of its investments at the carrying amount of its share of the equity items shown in the balance sheet of the original parent at the date of reorganisation.

The Group will need to determine whether to maintain its present accounting policy of calculating goodwill acquired based on the parent entity's share of net assets acquired or change its policy so goodwill recognised also reflects that of the non-controlling interest.

AASB 8: Operating Segments and AASB 2007-3: Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038] (applicable for annual reporting periods commencing from 1 January 2009). AASB 8 replaces AASB 114 and requires identification of operating segments on the basis of internal reports that are regularly reviewed by the Group's Board for the purposes of decision making. BluGlass currently operates in one business and geographical segment.

AASB 101: Presentation of Financial Statements, AASB 2007-8: Amendments to Australian Accounting Standards arising from AASB 101, and AASB 2007-10: Further Amendments to Australian Accounting Standards arising from AASB 101 (all applicable to annual reporting periods commencing from 1 January 2009). The revised AASB 101 and amendments supersede the previous AASB 101 and redefines the composition of financial statements including the inclusion of a statement of comprehensive income. There will be no measurement or recognition impact on the Group.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

(r) **New Accounting Standards for Application in Future Periods (Cont.)**

AASB 123: Borrowing Costs and AASB 2007-6: Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12] (applicable for annual reporting periods commencing from 1 January 2009). The revised AASB 123 has removed the option to expense all borrowing costs and will therefore require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. Management has determined that there will be no effect on the Group as a policy of capitalising qualifying borrowing costs has been maintained by the Group.

AASB 2008-1: Amendments to Australian Accounting Standard ï Share-based Payments: Vesting Conditions and Cancellations [AASB 2] (applicable for annual reporting periods commencing from 1 January 2009). This amendment to AASB 2 clarifies that vesting conditions consist of service and performance conditions only. Other elements of a share-based payment transaction should therefore be considered for the purposes of determining fair value. Cancellations are also required to be treated in the same manner whether cancelled by the entity or by another party.

AASB 2008-5: Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-5) and AASB 2008-6: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (July 2008) (AASB 2008-6) detail numerous non-urgent but necessary changes to accounting standards arising from the IASBôs annual improvements project. No changes are expected to materially affect the Group.

The Group does not anticipate early adoption of any of the above reporting requirements and does not expect these requirements to have any material effect on the Groupôs financial statements.

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

Note 2: Revenue and Other Income

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Revenue					
ð interest received	**2a**	196,662	614,817	194,701	613,085
ð grant revenue		1,645,955	2,600,296	1,645,955	2,568,136
ð sundry income		2,406	1,015	2,406	1,015
Total Revenue		1,845,023	3,216,128	1,843,062	3,182,236
2a.Other Revenue					
ð Interest received from other persons		196,662	614,817	194,701	613,085
Total interest revenue		196,662	614,817	194,701	613,085

Note 3: Expenses

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Rental Expense on operating leases				
ð Minimum lease payments	208,233	201,733	208,233	201,733
Impairment	3,435,080,	-	3,435,080	-

Note 4: Income Tax Expense

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(a) The components of tax expense comprise:				
ð Current tax benefit	-	-	-	-
ð Deferred tax benefit	-	-	-	-

Note 4: Income Tax Expense (Cont).

		Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
(b)	The prima facie tax on loss before income tax is reconciled to the income tax as follows:				
	Prima facie tax payable on loss before income tax at 30% (2008: 30%)				
	ð consolidated entity	(2,532,984)	(806,060)		-
	ð parent entity	-	-	(2,533,106)	(815,727)
	Add:				
	Tax effect of:				
	ð IPO related costs(deductible over 5 years)	78,369	78,369	78,369	78,369
	ð share options expensed during year	215,566	85,618	215,566	85,618
	ð other non-allowable items	85,509	43,121	85,509	43,121
		379,444	207,108	379,444	207,108
	Add:				
	Income tax benefit not bought to account	2,153,540	598,952	2,153,662	608,619
	Income tax benefit attributable to the entity	-	-	-	-
	Accumulated tax losses not brought to account	3,391,610	1,238,070	3,352,386	1,198,724

Note 5: Interests of Key Management Personnel

Refer to the Remuneration Report contained in the Report of the Directors for details of the remuneration paid or payable to each member of the Groupś key management personnel for the year ended 30 June 2009.

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

	2009	2008
	$	$
Short term employee benefits	727,305	1,046,508
Post-employment benefits	62,343	81,750
Other long-term benefits	-	-
Termination benefits	-	-
Share-based payments	477,775	474,091
	1,267,423	1,602,349

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

(b) **Option Holdings**

30 June 2009	**Balance at beginning of year**	**Granted as remuneration during the year**	**Exercised during the year**	**Other changes during the year**	**Balance at end of year**	**Vested during the year**	**Vested and exercise-able**	**Vested and unexercis-able**
Michael Taverner	1,100,000	-	-	(1,100,000)	-	-	-	-
David Jordan	1,000,000	-	-	(1,000,000)	-	-	-	-
Gregory Cornelsen	500,000	-	-	(500,000)	-	-	-	-
Chandra Kantamneni	500,000	-	-	(500,000)	-	-	-	-
Giles Bourne	360,274	3,085,000	-	-	3,445,274	188,425	238,425	-
Scott Butcher	691,096	-	-	(691,096)	-	-	-	-
Geoff King	1,072,945	-	-	(25,000)	1,047,945	349,315	349,315	-
	5,224,315	3,125,000	-	(3,816,096)	4,493,219	537,740	587,740	-

30 June 2008	**Balance at beginning of year**	**Granted as remuneration during the year**	**Exercised during the year**	**Other changes during the year**	**Balance at end of year**	**Vested during the year**	**Vested and exercise-able**	**Vested and unexercis-able**
Michael Taverner	1,100,000	-	-	-	1,100,000	-	-	-
David Jordan	3,000,000	-	-	(2,000,000)	1,000,000	-	-	-
Gregory Cornelsen	500,000	-	-	-	500,000	-	-	-
Chandra Kantamneni	500,000	-	-	-	500,000	-	-	-
Giles Bourne		360,274	-	-	360,274	50,000	50,000	-
Scott Butcher	50,000	641,096	-	-	691,096	-	50,000	-
Geoff King	25,000	1,047,945	-	-	1,072,945	-	25,000	-
	5,175,000	2,049,315	-	(2,000,000)	5,224,945	50,000	125,000	-

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

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

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

30 June 2008	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Michael Taverner	287,500	-	-	-	287,500
Gregory Cornelsen	525,000	-	-	-	525,000
	812,500	-	-	-	812,500

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

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

For details of other Key Management Personnel refer to Note 24: Related Party Transactions

Note 6: Auditors' Remuneration

	Consolidated Entity		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
Remuneration of the auditor of the parent entity for:				
ð auditing or reviewing the financial report	33,500	29,680	33,500	29,680
ð taxation services	9,600	15,000	9,600	15,000
ð Other services	3,000	1,000	3,000	1,000
	46,100	45,680	46,100	45,680

Note 7: Loss per Share

		Consolidated Entity	
		2009 $	2008 $
(a)	Reconciliation of Earnings per share to Loss		
	Loss	(8,443,280)	(2,686,867)
(b)	Basic and diluted loss per share (cents per share)	(5.06)	(1.62)
		No.	No.
(c)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS.	166,712,598	165,646,292
(d)	Weighted average number of ordinary shares outstanding during the year used in calculating diluted EPS.	166,712,598	165,646,292
(e)	Weighted average number of potential ordinary shares not included in diluted EPS as not dilutive.	17,720,695	27,722,230

Note 8: Cash and Cash Equivalents

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Cash at bank and in hand	2,154,143	5,905,250	2,107,194	5,859,957
Short-term bank deposits	20,345	134,612	20,345	134,612
Petty cash	430	4,035	430	4,035
	2,174,918	6,043,897	2,127,969	5,998,604

The effective interest rate on short-term bank deposits was 6.8%; these deposits have an average maturity of less than14 days.

Reconciliation of cash

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

Cash and cash equivalents	2,174,918	6,043,897	2,127,969	5,998,604
	2,174,918	6,043,897	2,127,969	5,998,604

Note 9: Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Trade receivables	-	-	-	-
GST receivable	-	244,471	-	244,471
Amounts receivable from:				
ð wholly-owned subsidiaries	-	-	89,191	89,191
ð Interest Accrued	-	26,762	-	26,762
	-	271,233	89,191	360,424

Note 10: Inventories

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Raw Materials and Stores (at cost)	156,397	133,615	156,397	133,615
	156,397	133,615	156,397	133,615

Note 11: Other Current Assets

	Consolidated Entity		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
CURRENT				
Prepayments	206,805	60,253	206,805	60,253
Security deposit	10,916	11,366	10,916	11,366
Withholding Tax	-	6,848	-	6,760
Novated Lease	-	11,028	-	11,028
Provision for FBT Tax	1,471	-	1,469	-
	219,192	89,495	219,190	89,407

Note 12: Plant and Equipment

	Consolidated Entity		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
PLANT AND EQUIPMENT				
Plant and Equipment:				
At cost	4,644,798	3,816,764	4,643,798	3,815,764
Accumulated depreciation	(1,325,826)	(534,005)	(1,325,781)	(533,960)
Total Plant and Equipment:	3,318,972	3,282,759	3,318,017	3,281,804
Leasehold improvements				
At cost	2,762,392	2,452,968	2,762,392	2,452,968
Accumulated depreciation	(939,266)	(162,462)	(939,266)	(162,462)
Total Leasehold Improvements	1,823,126	2,290,506	1,823,126	2,290,506
Furniture and Fittings				
At cost	114,012	105,409	114,012	105,409
Accumulated depreciation	(22,024)	(10,688)	(22,024)	(10,688)
Total Furniture and Fittings	91,988	94,721	91,988	94,721
Computer Equipment				
At cost	83,530	58,135	83,530	56,318
Accumulated depreciation	(47,195)	(22,952)	(47,195)	(22,298)
Total Computer Equipment	36,335	35,183	36,335	34,020
Total Property, Plant and Equipment	5,270,421	5,703,169	5,269,466	5,701,051

Note 12: Plant & Equipment (continued)

(a) **Movements in Carrying Amounts**

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

	Plant and Equipment	Leasehold Improvements	Furniture and Fittings	Computer Equipment	Total
	$	$	$		$
Consolidated Entity:					
Balance at 30 June 2008	3,282,759	2,290,506	94,721	35,183	5,703,169
Additions	828,034	309,424	8,603	27,212	1,173,273
Disposals	-	-	-	(1,817)	(1,817)
Depreciation expense	(791,821)	(776,804)	(11,336)	(24,243)	(1,604,204)
Balance at 30 June 2009	3,318,972	1,823,126	91,988	36,335	5,270,421
Parent Entity:					
Balance at 30 June 2008	3,281,804	2,290,506	94,721	34,020	5,701,051
Additions	828,033	309,424	8,603	27,212	1,173,272
Disposals	-	-	-	-	-
Depreciation expense	(791,821)	(776,804)	(11,336)	(24,896)	1,604,857
Balance at 30 June 2009	3,318,016	1,823,126	91,988	36,335	5,269,466

Note 13: Intangible Assets

	Consolidated Entity		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
In process research and development:				
Cost	12,130,080	12,130,080	-	-
Accumulated impaired losses	(3,435,080)	-	-	-
Net carrying value	8,695,000	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%. Other general market considerations have been considered including the market capitalisation of BluGlass. The IP was assessed to have a value of $8.695 million and directors have recommended an impairment of $3,435,080.

Note 14: Other Financial Assets

		Consolidated Entity		Parent Entity	
		2009 $	2008 $	2009 $	2008 $
Other investments	**14(a)**	-	-	12,264,805	12,264,805
Accumulated Impaired losses		-	-	(3,435,080)	-
		-	-	8,829,725	12,264,805

(a) **Other Investments Comprise:**

	Consolidated 2009 $	Consolidated 2008 $	Parent 2009 $	Parent 2008 $
Unlisted investments, at cost				
ð Shares in the controlled entities	-	-	12,265,005	12,264,805
ð Accumulated Impaired Losses	-	-	(3,435,080)	-
Total other investments	-	-	8,829,725	12,264,805

Financial assets comprise investments in the ordinary share capital of Gallium Enterprises Pty Ltd, Blusolar Pty Ltd and Bluglass Deposition Technologies 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 Gallium Enterprises Pty Ltd.

Note 15: Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2009	Percentage Owned (%)* 2008
Parent Entity:			
Bluglass Limited	Australia	-	-
Subsidiaries of Bluglass Limited:			
Gallium Enterprises Pty Ltd	Australia	100	100
Blusolar Pty Ltd	Australia	100	-
Bluglass Deposition Technologies Pty Ltd	Australia	100	-

* Percentage of voting power is in proportion to ownership

(b) **Acquisition of Controlled Entities**

No acquisitions or disposals of controlled entities during the year.

BluSolar Pty Ltd was incorporated on 29 October 2008.

BluGlass Deposition Technologies was incorporated on 18 June 2009.

Note 16: Trade and Other Payables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
CURRENT				
Trade payables	116,147	533,580	116,306	533,722
Sundry payables and accrued expenses	133,774	125,254	133,956	125,254
	249,921	658,834	250,262	658,976

Note 17: Provisions

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Current	124,789	105,348	130,721	111,280
Non-Current	141,139	-	141,139	-
	265,928	105,348	271,860	111,280

	Lease Make Good $	Employee Benefits $	Total $
Consolidated Group			
Opening balance at 1 July 2008	-	105,348	105,348
Additional provisions	141,139	19,441	160,580
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Balance at 30 June 2009	141,139	124,789	265,928
Parent Entity			
Opening balance at 1 July 2008	-	111,280	111,280
Additional provisions	141,139	19,441	160,580
Amounts used	-	-	-
Unused amounts reversed	-	-	-
Balance at 30 June 2009	141,139	130,721	271,860

Note 18: Issued Capital

	Consolidated Entity		Parent Entity	
	2009 $	2008 $	2009 $	2008 $
167,131,413 (2008: 166,537,966) fully paid ordinary shares	27,124,196	27,006,696	27,124,196	27,006,696
	27,124,196	27,006,696	27,124,196	27,006,696

The company has authorised share capital amounting to 167,131,413 ordinary shares.

(a) **Ordinary Shares**	No.	No.	No.	No.
At the beginning of reporting period	166,537,966	163,610,196	166,537,966	163,610,196
Shares issued:				
ð 31 July 2007	-	500,000	-	500,000
ð 31 August 2007	-	1,250,000	-	1,250,000
ð 31 December 2007	-	1,000,000	-	1,000,000
ð 31 March 2008	-	100,000	-	100,000
ð 30 April 2008	-	75,000	-	75,000
ð 30 June 2008	-	2,770	-	2,770
ð 12 August 2008	125,000	-	125,000	-
ð 11 May 2009	443,447	-	443,447	-
ð 1 June 2009	25,000	-	25,000	-
At reporting date	167,131,413	166,537,966	167,131,413	166,537,966

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

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

(b) **Options**

i. For information relating to the BluGlass Limited employee option plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, refer to Note 23 Share-based Payments.

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

(c) **Capital Management**

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

The consolidated entityÕs 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.

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

Note 20: Capital and Leasing Commitments

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
(a) Operating Lease Commitments:				
Non-cancellable operating lease contracted for but not capitalised in the financial statements				
Payable ð minimum lease payments				
ð not later than 12 months	135,386	196,801	135,386	196,801
ð Between 12 months and 5 years	-	135,386	-	135,386
ð greater than 5 years	-	-	-	-
	135,386	332,187	135,386	332,187

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.

(b) Capital Expenditure Commitments:

In August 2009 BluGlass ordered research equipment priced at $315,000.

(c) Other Commitments:

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

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

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 Nitride (GaN) in Australia.

Note 22: Cash Flow Information

	Consolidated Entity		Parent Entity	
	2009 $	**2008 $**	**2009 $**	**2008 $**
(a) Reconciliation of Cash Flow from Operations with Loss after Income Tax				
Loss after income tax	(8,443,280)	(2,686,867)	(8,443,686)	(2,719,091)
Non-cash flows in loss				
Impairment	3,435,080	-	3,435,080	-
Depreciation	1,582,053	657,519	1,580,890	659,519
Share options expensed	718,552	285,392	718,552	285,392
Other Non-cash items	111,467	-	111,467	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and term receivables	191,509	47,281	191,422	(51,469)
(Increase)/decrease in prepayments	(146,552)	(117,420)	(146,552)	(121,432)
(Increase)/decrease in inventory	(22,782)	(133,615)	(22,782)	(133,615)
Increase/(decrease) in trade payables and accruals	(453,473)	188,257	(453,473)	211,314
Increase/(decrease) in provisions	160,580	(29,809)	160,580	39,049
Cash flow from operations	(2,866,846)	(1,789,262)	(2,868,502)	(1,830,333)

Note 23: Share-based Payments

The following share-based payments existed at 30 June 2009:

On 18 July 2008, 3,000,000 incentive share options were granted to the CEO pursuant to an Executive Services Agreement dated 16 July, 2008 at an exercise price of $0.49 each. The options can be exercised on or before 31 May 2013 subject to vesting criteria. The options hold no voting or dividend rights and are not transferable. At balance date, zero share options had been exercised.

On 5 January 2009, 641,096 share options were forfeited following the resignation of Dr Scott Butcher as Chief Technology Officer.

On 16 January 2009, 85,000 share options were granted to employees under the Bluglass Limited employee incentive scheme to take up ordinary shares at an exercise price of $0.27 each. The options can be exercised on or before 19 September 2010. The options hold no voting or dividend rights and are not transferable. At balance date, zero share options had been exercised.

On 16 January 2009, 40,000 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 20 November 2010. The options hold no voting or dividend rights and are not transferable. At balance date, zero share options had been exercised.

On 17 June 2009, 125,000 share options were forfeited following the resignation of an employee.

On 30 June 2009 3,000,000 director options lapsed.

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 by key management personnel.

Note 23: Share-based Payments (Cont.)

	Consolidated Entity			
	2009		2008	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	7,593,218	0.31	5,125,000	0.20
Granted	3,125,000	0.48	4,468,218	0.39
Forfeited	(766,096)	0.39	(2,000,000)	0.20
Exercised	(25,000)	0.20	-	-
Expired	(3,125,000)	0.20	-	-
Outstanding at year-end	6,802,122	0.43	7,593,218	0.31
Exercisable at year-end	1,450,707	0.35	300,000	0.20

	Parent Entity			
	2009		2008	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	7,593,218	0.31	5,125,000	0.20
Granted	3,125,000	0.48	4,468,218	0.39
Forfeited	(766,096)	0.39	(2,000,000)	0.20
Exercised	(25,000)	0.20	-	-
Expired	(3,125,000)	0.20	-	-
Outstanding at year-end	6,802,122	0.43	7,593,218	0.31
Exercisable at year-end	1,450,707	0.35	300,000	0.20

25,000 employee options were exercised during the year ended 30 June 2009.

The options outstanding at 30 June 2009 had a weighted average share price of $0.43 and a weighted average remained contractual life of 3.6 years. (Option prices were $0.31 in respect of options outstanding at 30 June 2008).

The weighted average fair value of the options granted during the year was $0.15.

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

Weighted average exercise price	$0.48
Weighted average life of the options	4.74 years
Underlying average share price	$0.30
Expected share price volatility	72%
Risk free interest rate	5.16%

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

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

Included under employee benefits expense in the income statement relating to share-based payment is $718,552 (2008: $285,392) and relates, in full, to equity-settled share-based payment transactions.

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

Note 24: Related Party Transactions

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
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 from Macquarie University which holds a 16.7% interest in BluGlass Limited.	-	108,176	-	108,176
Consulting Fees to director D Jordan	-	7,907	-	7,907
Macquarie ARC Linkage Grant Collaboration	100,000	-	100,000	-
Loan to Gallium Enterprises Pty Ltd for working capital	-	-	50,000	50,000
	100,000	116,083	150,000	166,083

Key Management Personnel have no related party transactions.

Note 25: Financial Risk Management

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

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

	Note	Consolidated Group		Parent Entity	
		2009	2008	2009	2008
Financial Assets					
Cash and cash equivalents	8	2,174,918	6,043,897	2,127,969	5,998,604
Loans and receivables	9	-	271	89,191	3,604
		2,174,918	6,044,168	2,217,160	6,002,208
Financial Liabilities					
Financial liabilities at amortised cost		-	-	-	-
ð Trade and other payables	16	249,921	658,834	250,262	658,976
		249,921	658,834	250,262	658,976

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

Note 25: Financial Risk Management (Cont.)

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

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

Specific Financial Risk Exposures and Management

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

(a) 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.

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.

Foreign Exchange Risk

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

(b) **Financial Instruments**

(i) *Interest Rate Risk*

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

	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2009 %	2008 %	2009 $	2008 $
Consolidated Entity				
Financial Assets:				
Cash	3.22	6.69	177,671	1,043,897
Investments in term deposits and bank bills	5.44	6.82	1,997,247	5,000,000
Total Financial Assets			2,174,918	6,043,897

Note 25: Financial Risk Management (Cont.)

Parent Entity

Financial Assets:

	Weighted Average Effective Interest Rate		Floating Interest Rate	
	2009 %	2008 %	2009 $	2008 $
Cash	3.22	6.69	131,326	998,604
Investments in term deposits and bank bills	5.44	6.82	1,996,643	5,000,000
Total Financial Assets			2,127,969	5,998,604

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

(ii) *Financial instrument composition and maturity analysis*

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

(iii) *Net Fair Values*

All financial assets and liabilities at 30 June 2009 have maturities of less than 45 days and carrying value represents net fair value.

(iv) *Sensitivity analysis*

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

Note 26: Contingent Liabilities

Contingent liabilities include:

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

Note 27: Events after Balance Sheet Date

No significant events have occurred after balance sheet date.

The financial report has been authorised for issue on 24 August 2009 by the Board of Directors.

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

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